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ANNUAL FINANCIAL STATEMENTS

During FY2020 and prior to the lockdown, MC Mining made significant progress on its strategy, the most notable being the conclusion of a new IDC loan, the initial step in the Makhado Phase 1 composite debt/equity funding process

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2020

	Note	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Continuing operations			
Revenue	5	17,155	26,403
Cost of sales	6	(18,269)	(25,389)
Gross (loss) profit		(1,114)	1,014
Other operating income	7	192	1,606
Other operating gains/(losses)	8	(184)	969
Net impairment expense	9	(1,257)	(21,916)
Administrative expenses	10	(7,578)	(10,556)
Operating loss		(9,941)	(28,883)
Interest income		250	1,048
Finance costs	11	(3,159)	(5,687)
Loss before tax		(12,850)	(33,522)
Income tax charge	12	660	(204)
Net loss for the year from continuing operations		(12,190)	(33,726)
Loss for the year		(12,190)	(33,726)
Other comprehensive loss, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		(20,742)	(5,708)
Total comprehensive loss for the year		(32,932)	(39,434)
Loss for the year attributable to:			
Owners of the Company		(12,048)	(33,421)
Non-controlling interests		(142)	(305)
		(12,190)	(33,726)
Total comprehensive loss attributable to:			
Owners of the Company		(32,790)	(39,129)
Non-controlling interests		(142)	(305)
		(32,932)	(39,434)
Loss per share	13		
From continuing operations and discontinued operations			
Basic and diluted (cents per share)		(8.55)	(23.72)
From continuing operations			
Basic and diluted (cents per share)		(8.55)	(23.72)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2020

	Note	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
ASSETS			
Non-current assets			
Exploration and evaluation expenditure	14	78,714	94,871
Development assets	15	20,720	26,919
Property, plant and equipment	16	24,396	32,713
Right-of-use assets	17	1,819	–
Other receivables	18	–	219
Other financial assets	19	3,743	5,006
Restricted cash	22	57	68
Total non-current assets		129,449	159,796
Current assets			
Inventories	20	1,109	1,042
Trade and other receivables	21	1,311	2,996
Tax receivable		162	201
Other financial assets	19	–	23
Cash and cash equivalents	22	2,678	8,811
Total current assets		5,260	13,073
Assets classified as held for sale		274	939
Total assets		134,983	173,808
LIABILITIES			
Non-current liabilities			
Deferred consideration	23	2,220	2,665
Borrowings	24	566	898
Provisions	25	4,996	6,564
Deferred tax liability	26	4,078	5,750
Lease liabilities	27	1,622	689
Total non-current liabilities		13,482	16,566
Current liabilities			
Deferred consideration	23	101	1,406
Borrowings	24	13,029	13,401
Trade and other payables	29	6,463	8,850
Bank overdraft	22	2,214	–
Provisions	25	197	536
Other liabilities	28	–	176
Current tax liabilities		341	420
Lease liabilities	27	213	312
Total current liabilities		22,558	25,101
Total liabilities		36,040	41,667
NET ASSETS		98,943	132,141
EQUITY			
Issued capital	30	1,041,080	1,040,950
Accumulated deficit	31	(895,591)	(884,297)
Reserves	32	(45,918)	(24,601)
Equity attributable to owners of the Company		99,571	132,052
Non-controlling interests	34	(628)	89
TOTAL EQUITY		98,943	132,141

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2020

	Issued capital \$'000	Accumu- lated deficit \$'000	Share- based payment reserve \$'000	Capital profits reserve \$'000	Warrants reserve \$'000	Foreign currency translation reserve \$'000	Attribu- table to owners of the parent \$'000	Non- controlling interests \$'000	Total equity \$'000
Balance at 1 July 2019	1,040,950	(884,297)	2,234	91	1,134	(28,060)	132,052	89	132,141
Total comprehensive loss for the year	–	(12,048)	–	–	–	(20,543)	(32,591)	(717)	(33,308)
Loss for the year	–	(12,048)	–	–	–	–	(12,048)	(142)	(12,190)
Freewheel derecognised	–	–	–	–	–	199	199	(575)	(376)
Other comprehensive loss, net of tax	–	–	–	–	–	(20,742)	(20,742)	–	(20,742)
Performance grants issued to employees	–	–	769	–	–	–	769	–	769
Share options expired	–	754	(754)	–	–	–	–	–	–
Share options forfeited	–	–	(658)	–	–	–	(658)	–	(658)
Shares issued	131	–	(131)	–	–	–	–	–	–
Share issue costs	(1)	–	–	–	–	–	(1)	–	(1)
Balance at 30 June 2020	1,041,080	(895,591)	1,460	91	1,134	(48,603)	99,571	(628)	98,943
Balance at 1 July 2018	1,040,950	(851,535)	2,052	91	1,134	(22,352)	170,340	394	170,734
Total comprehensive loss for the year	–	(33,421)	–	–	–	(5,708)	(39,129)	(305)	(39,434)
Loss for the year	–	(33,421)	–	–	–	–	(33,421)	(305)	(33,726)
Other comprehensive loss, net of tax	–	–	–	–	–	(5,708)	(5,708)	–	(5,708)
Dividends	–	(11)	–	–	–	–	(11)	–	(11)
Performance grants issued to employees	–	–	852	–	–	–	852	–	852
Share options expired	–	670	(670)	–	–	–	–	–	–
Balance at 30 June 2019	1,040,950	(884,297)	2,234	91	1,134	(28,060)	132,052	89	132,141

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2020

	Note	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Cash flows from operating activities			
Receipts from customers		20,950	32,068
Payments to suppliers and employees		(26,000)	(37,345)
Cash generated from/(used in) operations	37	(5,050)	(5,277)
Interest received		250	403
Interest paid		(137)	(48)
Dividend paid		–	(33)
Tax paid		–	(457)
Net cash used in operating activities		(4,937)	(5,412)
Cash flows from investing activities			
Purchase of property, plant and equipment	17	(569)	(562)
Proceeds from the sale of property, plant and equipment		1,719	3,499
Investment in development assets	16	(5)	(5)
Investment in exploration assets	15	(1,266)	(3,350)
Khethekile acquisition – consideration paid	35	–	(521)
Khethekile acquisition - deferred consideration payment	23	(271)	(239)
Pan African Resources deferred consideration payment		(1,004)	–
Bio-diversity off-set agreement payment		(84)	–
Net proceeds from the sale of Mooiplaats Colliery	13	–	6,457
Decrease/(increase) in other financial assets	19	320	(649)
Increase in restricted cash		–	(16)
Net cash (used/in)/generated from investing activities		(1,160)	4,614
Cash flows from financing activities			
Borrowings repayments	24	(360)	(692)
Lease repayments		(994)	(378)
Net cash used by financing activities		(1,354)	(1,070)
Net decrease in cash and cash equivalents		(7,451)	(1,868)
Net foreign exchange differences		(896)	(252)
Cash and cash equivalents at beginning of the year		8,811	10,931
Cash and cash equivalents at the end of the year	22	464	8,811

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2020

1. General information

MC Mining Limited is a limited company incorporated in Australia. Its common shares are listed on the ASX, the AIM and the JSE in South Africa. The addresses of its registered office and principal places of business is Suite 8, 7 The Esplanade, Mt Pleasant, Perth, Western Australia 6000.

The principal activities of the Company and its subsidiaries (the Group or the Consolidated Entity) are the acquisition, exploration, development and operation of metallurgical and thermal coal projects in South Africa.

The Group's principal assets and projects include:

- The operating mine, Uitkomst Colliery
- The Makhado hard coking and thermal coal project that has been granted a Mining Right, an IWUL and an EA
- The Vele Colliery, a semi soft coking and thermal coal mine, currently under care and maintenance and has been granted the final IWUL relating to the new perennial stream diversion application
- Three exploration and development stage coking and thermal coal projects, namely Chapudi, Generaal and Mopane

Going concern

The Consolidated Entity has incurred a net loss after tax for the year ended 30 June 2020 of \$12,190 thousand (30 June 2019: loss of \$33,726 thousand). The prior period loss included a non-cash impairment of \$21,916 mainly related to the impairment of Australian dollar payments made by the Group in 2007 for the acquisition of new order prospecting rights, which have been incorporated into the Makhado New Order Mining Right. During the twelve month period ended 30 June 2020, net cash outflows from operating activities were \$4,937 thousand (30 June 2019 net outflow: \$5,412 thousand). As at 30 June 2020, the Consolidated Entity had a net current liability position of \$17,298 thousand (30 June 2019: net current liability position of \$11,089 thousand).

The current liability position as at 30 June 2020 is primarily a result of borrowings of \$12,587 thousand payable to the IDC in November 2020.

The Directors have prepared a cash flow forecast for the twelve month period ended 30 September 2021, taking into account available facilities, additional funding that is expected to be raised, capital expenditure that is expected to be incurred and expected cash flows to be generated by Uitkomst, which indicates that the Consolidated Entity will have sufficient cash to fund their operations for at least the twelve month period from the date of signing this report.

These cash flow forecasts referred to above include the following assumptions:

- Meeting commitments to creditors arising from continuing operations
- A negotiated deferred settlement over time of tranche 1 of the IDC loan (capital amount of \$6,923 thousand) to when Makhado Phase 1 is at steady state production as opposed to being payable in November 2020 (refer note 24). The settlement could also potentially be in equity
- The settlement of the \$2,308 thousand of tranche 2 of the IDC loan payable in November 2020
- A drawdown of the new IDC term facility of \$14,134 thousand (ZAR245,000 thousand)
- In addition to the \$14,134 thousand (ZAR245,000 thousand) referred to above, further funding of approximately \$19,326 thousand (ZAR335,000 thousand) is required (Additional Funding)

The Company is exploring and progressing a number of alternatives to raise the Additional Funding including, but not limited to:

- The issue of new equity for cash in the Company to potential new shareholders
- The issue of new equity for cash in the corporate entities holding the Makhado Project
- The sale of minority stakes in the corporate entities holding the Makhado Project
- Further debt funding
- Contractor funding such as build, own, operate, transfer (BOOT) arrangements

The conclusion of the debt and equity raise is by its nature an involved process and is subject to successful negotiations with the external funders and shareholders. An equity raise may be subject to a due diligence process.

Subject to raising the Additional Funding, the development of Phase 1 of the Makhado Project will subsequently commence within the twelve months following the signing of these annual financial statements. In addition, the Consolidated Entity's ability to continue as a going concern for the twelve months following the signing of these annual financial statements is dependent on the raising of the above-mentioned Additional Funding. The Consolidated Entity's ability to continue as a going concern beyond the twelve months following the signing of these annual financial statements is dependent on the successful development of Phase 1 of the Makhado Project and its subsequent ramp-up to planned levels of production.

These conditions give rise to a material uncertainty that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern, and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

These consolidated annual financial statements do not give effect to adjustments that would be necessary to the carrying value and classification of assets and liabilities, should the Consolidated Entity be unable to continue as a going concern. Such adjustments could be material.

The Group has a history of successful capital raisings to meet the Consolidated Entity's funding requirements. The Directors believe that at the date of signing the annual financial statements there are reasonable grounds to believe that they will be successful in achieving the matters set out above and that the Consolidated Entity will have sufficient funds to meet their obligations as and when they fall due, and are of the opinion that the use of the going concern basis remains appropriate.

Basis of presentation

1.1. Statement of compliance

These consolidated financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the consolidated financial statements and notes of the Company and the Group comply with IFRS as issued by the International Accounting Standards Board.

The consolidated financial statements were authorised for issue by the Directors on 30 September 2020.

1.2. Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for other financial assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets.

All amounts are presented in United States dollars and rounded to nearest thousand unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 or fair value less costs to sell in AASB 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs are unobservable inputs for the asset or liability

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

2. Accounting policies

2.1. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- Has power over the investee
- Is exposed, or has rights, to variable returns from its involvement with the investee
- Has the ability to use its power to affect its returns

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders
- Potential voting rights held by the Company, other vote holders or other parties
- Rights arising from other contractual arrangements
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

A list of controlled entities is contained in note 40 to the consolidated financial statements.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All inter-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between

- (i) The aggregate of the fair value of the consideration received and the fair value of any retained interest and
- (ii) The previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

2.2. Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities are recognised and measured in accordance with AASB 112 *Income Taxes*
- Assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 119 *Employee Benefits*

- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 *Share-based Payment* at the acquisition date
- Assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that represent ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. Non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as a financial asset or liability is remeasured at subsequent reporting dates in accordance with AASB 9 *Financial Instruments*, or AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

2.3. Functional and presentation currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in United States dollars (\$), which is the presentation currency for the consolidated financial statements.

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of profit or loss and other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the date of the initial transaction.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment in the foreign operation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

2. Accounting policies continued

2.3. Functional and presentation currency continued

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into United States dollars using the spot rate of exchange ruling at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange ruling at the reporting date. Exchange differences arising are recognised in equity.

2.4. Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the criteria above are met and the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as assets held for sale and liabilities associated with assets held for sale in the consolidated statement of financial position. The income and expenses from these operations are not included in the various line items in the consolidated statement of profit or loss and other comprehensive income but the net results from these operations classified as held for sale are disclosed as a separate line within the statement of profit or loss.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

2.5. Exploration and evaluation expenditure

(i) Pre-licence costs

Pre-licence costs relate to costs incurred before the Group has obtained legal rights to explore in a specific area. Such costs may include the acquisition of exploration data and the associated costs of analysing that data. These costs are expensed in the period in which they are incurred.

(ii) Exploration and evaluation expenditure

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation activity includes:

- Researching and analysing historical exploration data
- Gathering exploration data through geophysical studies
- Exploratory drilling and sampling
- Determining and examining the volume and grade of the resource
- Surveying transportation and infrastructure requirements
- Conducting market and finance studies

Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit.

Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to profit or loss as incurred, unless the Group conclude that a future economic benefit is more likely than not to be realised.

Capitalised expenditure includes costs directly related to exploration and evaluation activities in the relevant area of interest, including materials and fuel used, surveying costs, drilling costs and payments made to contractors. General and administrative costs are allocated to an exploration or evaluation area of interest and capitalised as an asset only to the extent that those costs can be related directly to operational activities in the relevant area of interest.

Exploration and evaluation assets acquired in a business combination are initially recognised at fair value, including resources and exploration potential that are valued beyond proven and probable reserves. Similarly, the costs associated with acquiring an exploration and evaluation asset (that does not represent a business) are also capitalised. They are subsequently measured at cost less accumulated impairment.

All capitalised exploration and evaluation expenditure is written off where the above conditions are no longer satisfied and assessed for impairment if facts and circumstances indicate that an impairment may exist. See note 2.12.

Exploration and evaluation expenditure that has been capitalised is reclassified to development assets when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Prior to such reclassification, exploration and evaluation expenditure capitalised is tested for impairment.

2.6. Development assets

Development expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises costs directly attributable to the construction of a mine and the related infrastructure.

No depreciation is recognised in respect of development assets.

Development assets are assessed for impairment if facts and circumstances indicate that an impairment may exist. See note 2.12.

A development asset is reclassified as a 'mining property' at the end of the commissioning phase when the mine is capable of operating in the manner intended by management. Immediately prior to such reclassification, development assets are tested for impairment.

2.7. Property, plant and equipment – mining property

Mining property includes expenditure that has been incurred through the exploration and development phases, and, in addition, further development expenditure that is incurred in respect of a mining property after the commencement of production, provided that, in all instances, it is probable that additional future economic benefits associated with the expenditure will flow to the Group. Otherwise, such expenditure is classified as cost of sales.

Mining property includes plant and equipment associated with the mining property.

When a mine construction project moves into the production phase, the capitalisation of certain mine construction costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to mining asset additions, improvements or new developments, underground mine development or mineable reserve development.

Depreciation on plant and equipment included within mining property is computed on a straight-line basis over five years.

Depreciation on other components of mining property is charged using the units-of-production method, with separate calculations being made for each area of interest. The units-of-production basis results in a depreciation charge proportional to the depletion of proved and probable reserves.

Mining property is assessed for impairment if facts and circumstances indicate that an impairment may exist. See note 2.12.

2.8. Deferred stripping costs

Stripping costs comprise the removal of overburden and other waste products from a mine. Stripping costs incurred in the development of a mine before production commences are capitalised as part of the cost of constructing the mine (initially within development assets) and are subsequently depreciated over the life of the operation.

Stripping costs incurred during the production stage of a mine are deferred when all of the following criteria are met: (a) it is probable that future economic benefits will flow to the entity; (b) the entity can identify the component of the ore body to which the access has been improved; and (c) the cost incurred can be measured reliably. The amount deferred is based on the waste-to-ore ratio ('stripping ratio'), which is calculated by dividing the tonnage of waste mined by the quantity of ore mined. Stripping costs incurred in a period are deferred to the extent that the current period ratio exceeds the expected life-of-mine-ratio. Deferred stripping costs are amortised on a systematic basis over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity, or over the expected remaining life of the ore body if the stripping activity provides improved access to the whole of the remaining ore body. The units-of-production method is applied for amortisation of deferred stripping costs.

Where a mine operates more than one open pit that is regarded as a separate operation for the purpose of mine planning, stripping costs are accounted for separately by reference to the ore from each separate pit. If, however, the pits are highly integrated for the purpose of the mine planning, the second and subsequent pits are regarded as extensions of the first pit in accounting for stripping costs. In such cases, the initial stripping (i.e. overburden and other waste removal) of the second and subsequent pits is considered to be production phase stripping relating to the combined operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

2. Accounting policies continued

2.8. Deferred stripping costs continued

Deferred stripping costs are included in the cost base of assets when determining a cash generating unit (CGU) for impairment assessment purposes.

2.9. Property, plant and equipment – Mining Rights

Mining Rights are classified as property, plant and equipment on commencement of commercial production.

Depreciation is charged using the units of production method. The units of production basis results in a depreciation charge proportional to the depletion of proved and probable reserves.

Mining Rights are assessed for impairment if facts and circumstances indicate that an impairment may exist.

2.10. Property, plant and equipment (excluding development assets, mining property and Mining Rights)

Freehold land is stated at cost and is not depreciated.

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Where items of property, plant and equipment contain components that have different useful lives to the main item of plant and equipment, these are capitalised separately to the plant and equipment to which the component can be logically assigned.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and, for qualifying assets (where relevant), borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of a finance lease is also included in property, plant and equipment.

Depreciation is recognised so as to write off the cost of assets (other than freehold land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and the useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The annual depreciation rates applicable to each category of property, plant and equipment are as follows:

Furniture, fittings and office equipment	13% – 50%
Buildings	20%
Plant and equipment	20%
Motor vehicles	20% – 33%
Leasehold improvements	25%
Computer equipment	33%
Leased assets	Lease period

2.11. Intangible assets, excluding goodwill

An intangible asset is recognised at cost if it is probable that future economic benefits will flow to the Group and the cost can be reliably measured. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The amortisation method used and the estimated remaining useful lives are reviewed at least annually.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised.

Intangible assets are assessed for impairment if facts and circumstances indicate that an impairment may exist. See note 2.12.

2.12. Impairment of tangible and intangible assets other than goodwill

The carrying amounts of the Group's tangible and intangible assets are reviewed at each reporting date to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing fair value less costs to sell, the estimated future cash flows were discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted due to a market price not being available.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.13. Leasing

As explained in note 2.26. below, the group has changed its accounting policy for leases where the group is the lessee. The new policy and the impact of the change is described in note 2.26.

Until 30 June 2019, leases of property, plant and equipment where the group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

2.14. Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories include expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Cost is determined by using the weighted-average method and comprises direct purchase costs and an appropriate portion of fixed and variable overhead costs, including depreciation and amortisation, incurred in converting materials into finished goods, based on the normal production capacity.

Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.15. Trade receivables

Trade receivables are classified as financial assets at amortised cost. They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the group's business model is to collect the contractual cash flows on trade receivables. Trade receivables are recognised when the Group becomes a party to the contractual provisions of the receivables. They are initially measured at fair value and subsequently measured at amortised cost.

The Group recognises a loss allowance for expected credit losses (ECLs) on trade receivables. The amount of ECLs is updated at each reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

2. Accounting policies continued

2.15. Trade receivables continued

The Group makes use of a simplified approach as a practical expedient to the determination of ECLs on trade receivables. The Group applies the AASB 9 simplified approach to measure ECLs, which uses a lifetime ECL allowance, for trade receivables. Trade receivables that are more than 30 days past due are assessed to have an increase in credit risk. The simplified approach is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade receivables through use of a loss allowance account. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 90 days past due date. Impairment losses are included in operating expenses in profit or loss.

2.16. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits. Cash and cash equivalents are accounted for at amortised cost.

Restricted cash comprises cash balances which are encumbered and the Group does therefore not have unrestricted access to these funds.

2.17. Financial instruments

Financial instruments held by the Group are classified in accordance with the provisions of AASB 9 *Financial Instruments*. For details on reclassifications and re-measurements in terms of AASB 9 compared to AASB 139, please refer to note 2.26.

Broadly, the classification possibilities, which are adopted by the Group, as applicable, are as follows:

Financial assets

- Amortised cost
- Fair value through profit or loss

Financial liabilities

- Amortised cost

When a financial liability is contingent consideration in a business combination, the Group classifies it as a financial liability at fair value through profit or loss.

Financial assets at amortised cost

The following financial assets are classified as financial assets at amortised cost:

- Trade and other receivables
- Cash and cash equivalents
- Loan receivable
- Other financial assets

Classification

Assets are classified in this category because the contractual terms give rise, on specific dates, to cash flows that are solely payments of principal and interest on the principal outstanding, and it is the Group's business model to collect the contractual cash flows on these assets.

Measurement

Financial assets at amortised cost are recognised when the Group becomes a party to the contractual provisions of the asset. These financial assets are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. These financial assets are subsequently measured at amortised cost. The amortised cost is the amount recognised on the receivable, minus principal repayments, plus cumulative amortisation (interest) using the effective interest rate method, of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Interest income is calculated using the effective interest rate method and is included in profit or loss in interest income.

The application of the effective interest method to calculate interest income on a receivable is dependent on the credit risk of the receivable as follows:

- The effective interest rate is applied to the gross carrying amount of the financial asset, provided it is not credit impaired. The gross carrying amount is the amortised cost before adjusting for a loss allowance
- If a financial asset was not purchased or originally credit-impaired, but it has subsequently become credit-impaired, then the effective interest rate is applied to the amortised cost of the financial asset in the determination of interest. If, in subsequent periods, the financial asset is no longer credit impaired, then the interest calculation reverts to applying the effective interest rate to the gross carrying amount

When a financial asset is denominated in a foreign currency, the carrying amount of the financial asset is determined in the foreign currency. The carrying amount is then translated to using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in other operating gains/(losses).

Impairment

The Group assesses on a forward-looking basis the ECLs associated with its financial assets carried at amortised cost. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (ie the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group and Company expects to receive).

ECL allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument

The Group considers a financial asset to be in default when contractual payment term has lapsed. However, in certain cases, the Group and Company may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Financial assets at fair value through profit or loss

Classification

The following financial assets are classified at fair value through profit or loss:

- Other financial assets

Investments held by the Group as equity securities in investment funds are classified as fair value through profit or loss. Assets are classified in this category because the Group does not hold these investments solely to collect payments of principal and interest on the principal outstanding, and the Group manages these investments based on their fair value.

Measurement

Financial assets at fair value through profit or loss are recognised when the Group becomes a party to the contractual provisions of the investment. These financial assets are recognised initially at fair value. These financial assets are subsequently re-measured at fair value with all gains or losses recognised directly in profit or loss.

Financial liabilities at amortised cost

Classification

The following financial liabilities are classified as financial liabilities at amortised cost:

- Borrowings
- Finance lease liabilities
- Trade and other payables

Measurement

Liabilities at amortised cost are recognised when the Group becomes a party to the contractual provisions of the liability. The liabilities are initially measured, at initial recognition, at fair value plus transaction costs, if any. They are subsequently measured at amortised cost.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating an interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

2. Accounting policies continued

2.17. Financial instruments continued

Interest expense, calculated on the effective interest method, is included in profit or loss in finance costs.

When financial liabilities are denominated in a foreign currency, the carrying amount of the payables are determined in the foreign currency. The carrying amount is then translated to using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in the other operating gains/(losses).

Modification of financial liabilities

A substantial modification of the terms of an existing debt instrument or part of it is accounted for as an extinguishment of the original debt instrument and the recognition of a new debt instrument.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire. On derecognition of a financial asset/liability, any difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

2.18. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The increase in provisions due to the passage of time is included in the finance cost line item in the consolidated statement of profit or loss and other comprehensive income.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The entity recognises a provision for financial guarantees when it is probable that an outflow of resources embodying economic benefits and will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- Financial difficulty of the debtor
- Defaults or delinquencies in interest and capital repayment of the debtor
- Breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms
- A decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations

Rehabilitation provision

A provision for rehabilitation is recognised when there is a present obligation as a result of exploration, development or production activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably.

The nature of these restoration activities includes: dismantling and removing structures; rehabilitating mines and tailings dams; dismantling operating facilities; closing plant and waste sites; and restoring, reclaiming and revegetating affected areas.

The provision for future rehabilitation costs is the best estimate of the present value of the expenditure required to settle the rehabilitation obligation at the reporting date, based on current legal and other requirements and technology. Future rehabilitation costs are reviewed annually and any changes in the estimate are reflected in the present value of the rehabilitation provision at each reporting date.

The initial estimate of the rehabilitation provision relating to exploration, development and production facilities is capitalised into the cost of the related asset and depreciated or amortised on the same basis as the related asset. Changes in the estimate of the provision are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

2.20. Share-based payments transactions of the Group

Equity-settled

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 33.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on the straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Accounting for BEE transactions

Where equity instruments are issued to a BEE party at less than fair value, these are accounted for as share-based payments. Any difference between the fair value of the equity instrument issued and the consideration received is accounted for as an expense in the consolidated statement of profit or loss and other comprehensive income.

A restriction on the BEE party to transfer the equity instrument subsequent to its vesting is not treated as a vesting condition but is factored into the fair value determination of the instrument.

2.21. Taxation, including sales tax

The income tax expense or income for the period represents the sum of the tax currently payable or recoverable and deferred tax.

Current taxation

The tax currently payable or recoverable is based on taxable profit or loss for the year. Taxable profit or loss differs from profit or loss as reported in the consolidated statement of profit or loss and other comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the reporting date in countries where the Group operates and generates taxable income.

Deferred taxation

Deferred taxation is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit or loss. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if a taxable temporary difference arises from the initial recognition of goodwill or any temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax balances are calculated using the tax rates that are expected to apply to the reporting period or periods when the temporary difference reverse, based on tax rates and tax laws enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

2. Accounting policies continued

2.21. Taxation, including sales tax continued

Deferred taxation continued

Deferred tax liabilities are recognised for temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Sales tax

Revenues, expenses and assets are recognised net of the amount of the applicable sales tax, except:

- Where the amount of sales tax incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense
- For receivables and payables which are recognised inclusive of sales tax

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The sales tax component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

2.22. Revenue recognition

Revenue is recognised at fair value of the consideration received net of the amount of applicable sales tax.

Sale of coal – AASB 15: *Revenue from contracts with customers*

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over coal sold to a customer, which is generally indicated as follows:

- The entity has a present right to payment for the coal sold
- The customer has legal title to the coal sold
- The entity has transferred physical possession of the coal sold
- The customer has the significant risks and rewards of ownership of the coal sold
- The customer has accepted the coal sold

Transport of coal (where applicable) is also recognised as revenue at this point. No discounts are provided for coal sales.

Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate. Interest income is recognised in investment income on the consolidated statement of profit or loss and other comprehensive income.

2.23. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.24. Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

2.25. Segment information

Reportable segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Company's executive committee.

Management has determined the reportable segments of the Group based on the reports reviewed by the Company's executive committee that are used to make strategic decisions. The Group has three reportable segments: exploration, development and mining (see note 4).

2.26. Adoption of new and revised Accounting Standards and Interpretations

In the current year, the Group has adopted all of the new and revised standards and interpretation issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reported period. New and revised standards, amendments thereof, and interpretations effective for the current reporting period that are relevant to the Group include:

- AASB 16 *Leases* which resulted in almost all leases being recognised on the Statement of Financial Position, as the distinction between operating and finance leases was removed for lessees

AASB 16 – Leases

The group has adopted AASB 16 *Leases* retrospectively from 1 July 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. On adoption of AASB 16, the group recognised lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 12%.

For leases previously classified as finance leases, the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of AASB 16 are only applied after that date. The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's condensed consolidated half-year report.

(i) Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- The low value lease exemption – the Group has elected to take the low value exemption with a value of \$5 thousand for the individual leased asset value

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the group relied on its assessment made applying AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(ii) Adjustments recognised in the Statement of Financial Position on 1 July 2019

The change in accounting policy affected the following items in the Statement of Financial Position on 1 July 2019:

- Property, plant and equipment – decrease by \$1,042 thousand
- Right-of-use assets – increase by \$2,935 thousand
- Lease liabilities – increase by \$1,893 thousand

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

2. Accounting policies continued

2.26. Adoption of new and revised Accounting Standards and Interpretations continued

AASB 16 – Leases continued

(ii) Adjustments recognised in the Statement of Financial Position on 1 July 2019 continued

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. Critical accounting estimates and key judgements

Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The primary areas in which estimates and judgements are applied are discussed below.

3.1 Asset carrying values and impairment charges

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using fair value less cost to sell calculations, which incorporate various key assumptions. Key assumptions include future coal prices, future operating costs, discount rates, foreign exchange rates and coal reserves.

Exploration and evaluation assets

Determining the recoverability of exploration and evaluation expenditure capitalised requires estimates and assumptions as to future events and circumstances, in particular whether successful development and commercial exploitation or alternatively sale of the respective areas of interest, will be achieved. The Group applies the principles of AASB 6 and recognises exploration and evaluation assets when the rights of tenure of the area of interest are current, and the exploration and evaluation expenditures incurred are expected to be recouped through successful development and exploitation of the area. If, after having capitalised the expenditure under the Group's accounting policy, a judgment is made that recovery of the carrying amount is unlikely, an impairment loss is recorded in profit or loss.

Development expenditure

Development activities commence after the commercial viability and technical feasibility of the project is established. Judgment is applied by management in determining when a project is commercially viable and technically feasible. Any judgments may change as new information becomes available. If, after having commenced the development activity, a judgment is made that a development asset is impaired, the appropriate amount will be written off to the consolidated statement of comprehensive income.

The Company considers the following items as pre-requisites prior to concluding on commercial viability:

- All requisite regulatory approvals from government departments in South Africa have been received and are not subject to realistic legal challenges
- The Company has the necessary funding to engage in the construction and development of the project as well as general working capital until the project is cash generative
- A JORC compliant resource proving the quantity and quality of the project as well as a detailed mine plan reflecting that the colliery can be developed and will deliver the required return hurdle rates
- The Company has secured off-take and/or logistics agreements for a significant portion of the product produced by the mine and the pricing has been agreed
- The Company has the appropriate skills and resources to develop and operate the project

Impairment assessment

Long-term mining assets forming part of board-approved projects are valued based on estimates of future discounted cash flows (DCF) of the latest board-approved business forecasts regarding production volumes, costs of production, capital expenditure, coal prices and market forecasts for foreign exchange rates. The discount rate is a risk adjusted discount rate, taking into account specific risks relating to the Cash Generating Unit (CGU) where cash flows have not been adjusted for the risk. This methodology is typically applied to CGUs classified as development assets (e.g. Vele Colliery) and as property, plant and equipment (e.g. Uitkomst Colliery).

Coal resources outside approved mine plans are valued based on an *in situ* resource multiple based value. Comparable market transactions are used as a source of evidence. This methodology is typically applied to CGUs classified as exploration and evaluation assets (e.g. Greater Soutpansberg Project, Makhado Project, Uitkomst North adit). For exploration and evaluation projects that are at an advanced stage of evaluation and conditionally approved by the Board (e.g. Makhado Project), DCFs are also used and validated by *in situ* resource multiple based values.

The key financial assumptions used in the current year's impairment calculations are:

Hard coking coal price (real US\$ per tonne)	\$130 ¹
Thermal coal price (real US\$ per tonne)	\$65 ²
Rand/US dollar exchange rate	15.50 ³
Real discount rates	8% – 11% ⁴
<i>In situ</i> resource multiple valuation range (SA rand per tonne)	ZAR1 – ZAR5 ⁵

¹ Estimated with reference to the short-term future quotes for hard coking coal free-on-board Australia. Management's models considered an HCC price range of between \$124 per tonne and \$140 per tonne, with a base case of \$130 per tonne

² Estimated with reference to the forward curve for API4 thermal coal free-on-board Richards Bay. Management's models considered a real long-term thermal coal price range of between \$60 per tonne and \$70 per tonne, with a base case of \$65 per tonne

³ Estimated with reference to the prevailing exchange rates and consensus outlooks. Management's models considered a rand vs US dollar exchange rate range of between R15.00 and R16.50 with a base case of R15.50

⁴ Post-tax real discount rates that reflect management's assessments of market conditions and risks specific to the various projects. Management's models considered between 8% and 10% for established and producing projects and between 9% and 12% for developing and future projects, with a base case of 8.5% for established and producing projects and between 9% and 11% for developing and future projects

⁵ Based on historic thermal and premium coal transactions in South Africa a weighted range of between R1 and R5 per mineable tonne *in situ* was determined reasonable for the Group's impairment assessment purposes. The carrying values of the Group's exploration and evaluation projects were comfortably supported within this range after adjusting for project risk factors

Sensitivity analysis for DCF calculations

Sensitivity	Change	Effect on estimated recoverable amount US\$ million		
		Uitkomst Colliery	Vele Colliery	Makhado Project
Long-term HCC prices	+10%	N/A	8	30
	-5%	N/A	(8)	(31) ¹
Long-term thermal prices	+7.5%	4	8	15
	-7.5%	(4)	(8)	(15) ²
Long-term exchange rate	+6%	3.0	14	39
	-3%	(1.5)	(7)	(20) ³
Discount rate	+1%	(1.3)	(4)	(11) ⁴
	-1%	1.5	5	12

¹ Keeping all other inputs constant, this sensitivity scenario would not result in an impairment at either the Vele Colliery or the Makhado Project

² Keeping all other inputs constant, this sensitivity scenario would result in an impairment charge of \$3.5 million for the Uitkomst Colliery with no impairment charges for the Vele Colliery or the Makhado Project

³ Keeping all other inputs constant, this sensitivity scenario would result in an impairment charge of \$1.0 million for the Uitkomst Colliery, with no impairment charges for the Vele Colliery or the Makhado Project

⁴ Keeping all other inputs constant, this sensitivity scenario would result in an impairment charge of \$1.0 million for the Uitkomst Colliery, with no impairment charges for the Vele Colliery or the Makhado Project

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

3. Critical accounting estimates and key judgements continued

3.1 Asset carrying values and impairment charges continued

Impairment assessment continued

The key financial assumptions used in the prior year's impairment calculations were:

Hard coking coal price (real US\$ per tonne)	\$138 ¹
Thermal coal price (real US\$ per tonne)	\$74 ²
Rand/US dollar exchange rate	14.50 ³
Real discount rates	8% – 11% ⁴
<i>In situ</i> resource multiple valuation range (SA rand per tonne)	ZAR1 – ZAR5 ⁵

¹ Estimated with reference to the short-term future quotes for hard coking coal free-on-board Australia. Management's models considered an HCC price range of between \$124 per tonne and \$160 per tonne, with a base case of \$138 per tonne

² Estimated with reference to the forward curve for API4 thermal coal free-on-board Richards Bay. Management's models considered a Thermal coal price range of between \$66 per tonne and \$81 per tonne, with a base case of \$74 per tonne

³ Estimated with reference to the prevailing exchange rates. Management's models considered a rand vs US dollar exchange rate range of between R13.80 and R15.24 with a base case of R14.50

⁴ Post-tax discount rates that reflect management's assessments of market conditions and risks specific to the various projects. Management's models considered between 8% and 10% for established and producing projects and between 9% and 12% for developing and future projects, with a base case of 8% for established and producing projects and between 9% and 11% for developing and future projects

⁵ Based on recent thermal and premium coal transactions in South Africa a weighted range of between R1 and R5 per mineable tonne *in situ* was determined reasonable for the Group's impairment assessment purposes. The carrying values of the Group's exploration and evaluation projects were comfortably supported within this range after adjusting for project risk factors

Sensitivity analysis for DCF calculations (prior year)

Sensitivity	Change	Effect on estimated recoverable amount US\$ million		
		Uitkomst Colliery	Vele Colliery	Makhado Project
Long-term HCC and thermal coal prices	+10%	10	24	47
	-10%	(10)	(19)	(34) ¹
Long-term exchange rate	+5%	3	14	38
	-5%	(3)	(12)	(34) ²
Discount rate	+1%	(2)	(7)	(7) ³
	-1%	2	8	8

¹ Keeping all other inputs constant, this sensitivity scenario would result in an impairment charge for Uitkomst Colliery of \$5.5 million, no further impairment at Vele Colliery and an additional impairment charge for the Makhado Project of \$34 million (i.e. remaining carrying value)

² Keeping all other inputs constant, this sensitivity scenario would not result in any impairment charge for Uitkomst Colliery, no further impairment charge for Vele Colliery and an additional impairment charge for the Makhado Project of \$34 million (i.e. remaining carrying value)

³ Keeping all other inputs constant, this sensitivity scenario would not result in any impairment charge for Uitkomst Colliery, no further impairment charge for Vele Colliery and an additional impairment charge for the Makhado Project of \$7 million

3.2 Coal reserves

Economically recoverable coal reserves relate to the estimated quantity of coal in an area of interest that can be expected to be profitably extracted, processed and sold.

The Group determines and reports coal reserves under the Australasian Code of Reporting of Mineral Resources and Ore Reserves (the JORC Code). This includes estimates and assumptions in relation to geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, exchange rates and expected coal demand and prices.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations and mining operations conducted, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows
- Depreciation and amortisation charges may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change

3.3 Rehabilitation and restoration provisions

Certain estimates and assumptions are required to be made in determining the cost of rehabilitation and restoration of the areas disturbed during mining activities and the cost of dismantling of mining infrastructure. The amount the Group is expected to incur to settle its future obligations includes estimates regarding:

- The future expected costs of rehabilitation, restoration and dismantling
- The expected timing of the cash flows and the expected life-of-mine (which is based on coal reserves noted above)
- The application of relevant environmental legislation
- The appropriate rate at which to discount the liability

Changes in the estimates and assumptions used could have a material impact on the carrying value of the rehabilitation provision and related asset. The provision is reviewed at each reporting date and updated based on the best available estimates and assumptions at that time. The carrying amount of the rehabilitation provision is set out in note 25.

3.4 Non-current assets held for sale and discontinued operations

A non-current asset, or disposal group, is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continued use. In accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, assets which meet the definition of held for sale are valued at the lower of carrying value and fair value less costs to sell.

Judgement is required by management in determining whether an asset meets the AASB 5 criteria of held for sale, including whether the asset is being actively marketed, is available for sale in its current condition and whether a sale is highly probable within 12 months of classification as held for sale. When calculating fair value less costs to sell, estimates of future disposal proceeds are also required.

4. Segment information

The Group has three reportable segments: exploration, development and mining.

The exploration segment is involved in the search for resources suitable for commercial exploitation, and the determination of the technical feasibility and commercial viability of resources. As of 30 June 2020, projects within this reportable segment include four exploration stage coking and thermal coal complexes, namely Chapudi (which comprises the Chapudi Project, the Chapudi West Project and the Wildebeesthoek Project), Generaal (which comprises the Generaal Project and the Mount Stuart Project), Mopane (which comprises the Voorburg Project and the Jutland Project) and Makhado (comprising the Makhado Project and the Makhado Extension Project).

The development segment is engaged in establishing access to and commissioning facilities to extract, treat and transport production from the mineral reserve, and other preparations for commercial production. As of 30 June 2020, the only project included within this reportable segment is the Vele Colliery, in the early operational and development stage.

The mining segment is involved in day to day activities of obtaining a saleable product from the mineral reserve on a commercial scale and consists of Uitkomst Colliery and the Klipspruit Project.

The accounting policies of the reportable segments are the same as those described in note 2, Accounting policies.

The Group evaluates performance on the basis of segment profitability, which represents net operating (loss)/profit earned by each reportable segment.

Each reportable segment is managed separately because, amongst other things, each reportable segment has substantially different risks.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

The Group's reportable segments focus on the stage of project development and the product offerings of coal mines in production.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

4. Segment information continued

In order to reconcile the segment results with the consolidated statement of profit or loss and other comprehensive income, the discontinuing operations should be deducted from the segment total and the corporate results (as per the reconciliation later in the note should be included).

For the year ended 30 June 2020

	Exploration	Development	Mining	Total
Revenue	–	–	17,155	17,155
Cost of sales	–	–	(18,269)	(18,269)
Gross profit	–	–	(1,114)	(1,114)
Other income	77	25	35	137
Other operating (losses)/gains	(75)	(109)	–	(184)
Administrative expenses	(919)	(695)	(103)	(1,717)
Impairment (expense)/reversal	(1,804)	547	–	(1,257)
Operating (loss)/profit	(2,721)	(232)	(1,182)	(4,135)
Interest income	16	–	7	23
Finance costs	(2,209)	(342)	(607)	(3,158)
(Loss)/profit before tax	(4,914)	(574)	(1,782)	(7,270)
Income tax charge	–	–	661	661
Segment net (loss)/profit after tax	(4,914)	(574)	(1,121)	(6,609)
Segment assets	83,423	21,811	23,852	129,086
Items included in the Group's measure of segment assets				
– Addition to non-current assets	1,266	5	503	1,774
Segment liabilities	(19,023)	(4,231)	(11,818)	(35,072)

For the year ended 30 June 2019

	Exploration	Development	Mining	Total
Revenue	–	–	26,403	26,403
Cost of sales	–	–	(25,389)	(25,389)
Gross profit	–	–	1,014	1,014
Other income	42	9	175	226
Other operating (losses)/gains	(362)	–	–	(362)
Administrative expenses	(1,610)	(1,025)	(327)	(2,962)
Impairment (expense)/reversal	(23,268)	1,525	(132)	(21,875)
Operating (loss)/profit	(25,198)	509	730	(23,959)
Interest income	14	–	177	191
Finance costs	(4,913)	(364)	(399)	(5,676)
(Loss)/profit before tax	(30,097)	145	508	(29,444)
Income tax charge	–	–	67	67
Segment net (loss)/profit after tax	(30,097)	145	575	(29,377)
Segment assets	99,931	27,029	31,601	158,561
Items included in the Group's measure of segment assets				
– Addition to non-current assets	5,819	5	1,981	7,805
Segment liabilities	(21,190)	(5,552)	(12,271)	(39,013)

Reconciliations of the total segment amounts to respective items included in the consolidated financial statements are as follows:

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Total loss for reportable segments	(6,609)	(29,377)
Reconciling items:		
Other operating income	55	1,380
Other operating gains/(losses)	–	1,331
Administrative expenses	(5,862)	(7,593)
Impairment	–	(41)
Interest income	227	856
Finance costs	(1)	(11)
Income tax (charge)/credit	–	(271)
Loss for the year	(12,190)	(33,726)
Total segment assets	129,086	158,561
Reconciling items:		
Unallocated property, plant and equipment	225	2,178
Other financial assets	3,233	4,403
Other receivables	65	–
Unallocated current assets	2,374	8,666
Total assets	134,983	173,808
Total segment liabilities	(35,072)	(39,013)
Reconciling items:		
Deferred consideration	–	(1,108)
Unallocated liabilities	(968)	(1,546)
Total liabilities	(36,040)	(41,667)

The Group operates in two principal geographical areas – Australia (country of domicile) and South Africa (country of operations).

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Revenue by location of operations		
South Africa	17,155	26,403
Australia	–	–
Total revenue	17,155	26,403
Non-current assets by location of operations		
South Africa	129,449	159,796
Australia	–	–
Total non-current assets	129,449	159,796

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

5. Revenue

Revenue consists of the sale of coal by the Uitkomst Colliery. All coal sales during the period were made to customers in South Africa, mainly in the steel industry.

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Revenue from contracts with customers		
Sale of coal	16,707	25,207
Transport and other	448	1,196
	17,155	26,403
Disaggregation of revenue by location of customers		
South Africa	17,155	26,403
Other	–	–
	17,155	26,403

6. Cost of sales

Cost of sales consists of:

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Employee costs	(7,168)	(8,304)
Depreciation and amortisation	(2,494)	(2,101)
Inventory	273	(262)
Mining contractor	–	(1,469)
Underground mining	(2,544)	(4,731)
Utilities	(638)	(681)
Human resources	(765)	(1,063)
Training	(62)	(102)
Wash plant	(333)	(386)
Administration	(1,422)	(1,744)
Environmental	(9)	(65)
Logistics	(487)	(829)
Engineering	(2,087)	(3,074)
Safety	(168)	(128)
Security	(247)	(243)
Royalties	(118)	(207)
	(18,269)	(25,389)

7. Other operating income

Other operating income includes:

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Profit on sale of Opgoedenhooop surface right	–	1,174
Rental income	45	185
Scrap sales	13	23
Insurance recoveries	73	–
Other	61	224
	192	1,606

8. Other operating gains/(losses)

Other operating gains/(losses) include:

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Foreign exchange (loss)/gain		
– unrealised	(399)	244
– realised	(120)	78
Fair value adjustments	(127)	839
Loss on sale of Tshipise	–	(311)
Loss on sale of assets	(123)	–
De-recognition of Freewheel non-controlling interest	575	–
Other	10	119
	(184)	969

9. Net impairment expense

The net impairment expense includes:

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Impairment of Freewheel at acquisition asset recognised ¹	(1,804)	–
Exploration and evaluation assets ²	–	(23,309)
Development assets ³	547	1,277
Property, plant and equipment ³	–	116
	(1,257)	(21,916)

¹ The impairment arose on liquidation of Freewheel Trade and Invest 37 (Pty) Ltd

² In terms of AASB 6 *Exploration and Evaluation Assets*, management identified in the current and prior year that indicators existed that the Makhado Project asset may be impaired and performed a formal impairment assessment at 30 June 2020 and 30 June 2019. No impairment was required for the FY2020. In the FY2019, an impairment of \$23,268 thousand was recognised. Refer to note 14 for details of the impairment

In addition, in the prior year, exploration costs amounting to \$41 thousand incurred in Tshikunda Mining Proprietary Limited were impaired as a result of a sale agreement entered into for the sale of the company

³ The current year impairment reversals relate to the Harissia Investment Holdings (Pty) Ltd properties sold (\$499 thousand) and the Vele Colliery plant sale (\$48 thousand). These assets were previously impaired

In the prior period, a sale agreement was entered into for land that was impaired as part of the historical Vele impairment. As a result, an impairment reversal of \$1,277 thousand was recognised based on the selling price. The sale was concluded in the current period

During the prior period, certain previously impaired land was disposed of resulting in an impairment reversal of \$248 thousand. In addition, certain vehicles amounting to \$132 thousand were impaired

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

10. Administrative expenses

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Employee expense	(3,939)	(4,904)
Depreciation	(114)	(217)
Professional fees	(203)	(250)
Legal expenses	(353)	(714)
Impairment of Mooiplaats receivable	–	(1,144)
Other overheads	(2,969)	(3,327)
	(7,578)	(10,556)

Included in administrative expenses is auditors' remuneration as follows:

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Remuneration for audit and review of the financial report:		
PWC – Australia	(87)	(89)
PWC – South Africa	(233)	(223)
	(320)	(312)
Non-audit related services performed:		
PWC – Australia	(6)	(6)
PWC – South Africa	–	–
	(6)	(6)

11. Finance costs

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Interest on borrowings	(2,159)	(2,981)
Unwinding of discount	(431)	(482)
Leases	(258)	(83)
Other	(311)	(2,141)
	(3,159)	(5,687)

12. Income tax charge

Income tax recognised in profit or loss from continuing operations

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Current tax		
Tax expense in respect of the current year	–	–
Tax expense in respect of the prior year	(1)	(291)
Deferred tax (Note 26)		
Current year deferred tax	610	18
Prior year deferred tax	51	71
Withholding taxes	–	(2)
Total income tax (expense)/credit recognised	660	(204)

The Group's effective tax rate for the year from continuing operations was (5.1)% (2019: 0.6%). The tax rate used for the 2020 and 2019 reconciliations below is the corporate tax rate of 30% for Australian companies. The income tax expense for the year can be reconciled to the accounting profit as follows:

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Loss from continuing operations before income tax	(12,850)	(33,522)
Income tax benefit calculated at 30% (2019: 30%)	3,855	10,057
Tax effects of:		
Expenses that are not deductible for tax purposes	(2,558)	(9,666)
Differences in tax rates	(46)	(76)
Income not taxable	315	922
Other temporary differences not recognized	(1,385)	(1,313)
Other	429	92
Prior year adjustments	50	(220)
Income tax (expense)/credit	660	(204)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

13. Loss per share attributable to owners of the company

13.1. Basic loss per share

	Cents per share	Cents per share
From continuing operations	(8.55)	(23.72)
	(8.55)	(23.72)
Loss for the year attributable to owners of the Company	(12,048)	(33,421)
Loss used in the calculation of basic loss per share from continuing operations	(12,048)	(33,421)

Weighted number of ordinary shares

	'000 shares	'000 shares
Weighted average number of ordinary shares for the purposes of basic loss per share	140,959	140,880

13.2. Diluted loss per share

Diluted loss per share is calculated by dividing loss attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of diluted ordinary share that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

As at 30 June 2020, 2,408,752 warrants (2019 – 2,408,752 warrants), were excluded from the computation of the loss per share as their impact is anti-dilutive.

13.3. Headline loss per share (in line with JSE requirements)

The calculation of headline loss per share at 30 June 2020 was based on the headline loss attributable to ordinary equity holders of the Company of \$11,044 thousand (2019: \$12,429 thousand) and a weighted average number of ordinary shares outstanding during the period ended 30 June 2020 of 140,959,000 (2019: 140,879,585).

The adjustments made to arrive at the headline loss are as follows:

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Loss for the period attributable to ordinary shareholders	(12,048)	(33,421)
Adjust for:		
Impairment expense	1,804	23,404
Impairment reversal	(547)	(1,525)
Loss/(profit) on disposal of property, plant and equipment	123	(887)
De-recognition of Freewheel non-controlling interest	(575)	–
Freewheel foreign currency translation reserve recognised	199	–
Headline earnings	(11,044)	(12,429)
Headline loss per share (cents per share)	(7.83)	(8.82)

14. Exploration and evaluation assets

A reconciliation of exploration and evaluation assets is presented below:

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Exploration and evaluation assets		
Balance at beginning of year	94,871	116,889
Additions	1,266	5,819
Movement in rehabilitation asset	(28)	19
Disposals	–	(570)
Impairment	(1,804)	(23,309)
Foreign exchange differences	(15,591)	(3,977)
Balance at end of year	78,714	94,871

As of 30 June 2020, the net book value of the following project assets was classified as exploration and evaluation assets:

- Greater Soutpansberg Project: \$49,573 thousand
- Makhado Project: \$28,109 thousand
- Uitkomst North adit: \$281 thousand
- Vele Colliery: \$751 thousand

Impairment testing

In terms of AASB 6 *Exploration for and Evaluation of Mineral Resource* management have performed an assessment of whether facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. In performing its assessment, management has considered its exploration rights to the exploration areas, its planned and budgeted exploration activities and the likelihood of the recoverability of the net book value from the successful development of the areas of interest. Management has concluded that indicators of impairment for its exploration and evaluation assets exist as at 30 June 2020 and performed a formal assessment and no impairment was required at 30 June 2020. In the prior year, an impairment charge of \$23,268 thousand was recognised, relating to the Makhado Project.

The discount between the Group's market capitalisation and net asset value at 30 June 2020, together with the deterioration in thermal and premium coal prices during the second half of the year and subsequent to year-end respectively, prompted management to perform an impairment assessment.

Details of the key assumptions used in the calculations are set out in note 3.1.

Impairment charge (2019)

2019	USD '000
Carrying value of the Makhado Project before impairment charge	57,456
Estimated recoverable value	34,188
Impairment expense	23,268 ¹

¹ The impairment expense is all allocated to the historical carrying value of A\$33 million, which relates to amounts paid by MC Mining in 2007 for the acquisition of new order prospecting rights over certain of the Makhado Project properties. The recoverable value all relates to the carrying value of the exploration costs in the Baobab corporate entity on which no impairment is necessary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

15. Development

A reconciliation of development, exploration and evaluation expenditure is presented below:

Development assets

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Balance at beginning of year	26,919	28,033
Additions	5	5
Disposals	(502)	(1,880)
Movement in rehabilitation asset	(530)	802
Reversal of impairment ¹	48	1,277
Transfer to assets classified as held for sale	(274)	(607)
Foreign exchange differences	(4,946)	(711)
Balance at end of year	20,720	26,919

¹ The reversal of impairment during the year related to the sale of plant and in the prior year the sale of land that had previously been impaired

Impairment testing

As of 30 June 2020, the net book value of the following project assets was included in development assets:

- Vele Colliery: \$20,720 thousand

The discount between the Group's market capitalisation and net asset value at 30 June 2020, together with the deterioration in thermal and premium coal prices during the second half of the year and subsequent to year-end respectively, prompted management to perform an impairment assessment.

Details of the key assumptions used in the impairment assessment are set out in note 3.1. No additional impairment charge or reversal was required for Vele Colliery at 30 June 2020 following the impairment assessment.

16. Property, plant and equipment

	Mining property, plant and equipment \$'000	Mining rights \$'000	Land and buildings \$'000	Leasehold improvements \$'000	Motor vehicle \$'000	Other \$'000	Total \$'000
30 June 2020							
Cost							
At beginning of year	8,414	18,779	8,846	116	970	1,625	38,750
Additions	262	–	253	–	51	3	569
Disposals	–	–	(264)	–	–	(3)	(267)
Rehabilitation asset	(258)	–	–	–	–	–	(258)
Impairment reversal	–	–	82	–	–	–	82
Transfer to right-of-use assets	(1,011)	–	–	–	(31)	–	(1,042)
Transfer from right-of-use assets	37	–	–	–	24	–	61
Transfer to assets classified as held for sale	–	–	–	–	–	–	–
Exchange differences	(1,394)	(3,522)	(1,406)	(16)	(184)	(302)	(6,824)
At end of year	6,050	15,257	7,511	100	830	1,323	31,071
Accumulated depreciation							
At beginning of year	882	1,873	1,036	116	616	1,514	6,037
Depreciation charge	648	859	219	–	87	58	1,871
Accumulated depreciation on disposals	–	–	–	–	–	(3)	(3)
Transfer to assets classified as held for sale	–	–	–	–	–	–	–
Exchange differences	(233)	(441)	(128)	(16)	(124)	(288)	(1,230)
At end of year	1,297	2,291	1,127	100	579	1,281	6,675
Net carrying value at end of fiscal year 2020	4,753	12,966	6,384	–	251	42	24,396

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

16. Property, plant and equipment continued

	Mining property, plant and equipment \$'000	Mining rights \$'000	Land and buildings \$'000	Leasehold im- provements \$'000	Motor vehicle \$'000	Other \$'000	Total \$'000
30 June 2019							
Cost							
At beginning of year	2,348	19,268	9,658	120	947	1,927	34,268
Additions	1,687	–	398	–	38	73	2,196
Disposals	–	–	(570)	–	(186)	(325)	(1,081)
Rehabilitation asset	(82)	–	–	–	–	–	(82)
Impairment reversal	–	–	248	–	–	–	248
Khethikile acquisition	4,479	–	–	–	197	–	4,676
Transfer to assets classified as held for sale	–	–	(644)	–	–	–	(644)
Exchange differences	(18)	(489)	(244)	(4)	(26)	(50)	(831)
At end of year	8,414	18,779	8,846	116	970	1,625	38,750
Accumulated depreciation							
At beginning of year	163	910	1,311	120	555	1,757	4,816
Depreciation charge	720	979	270	–	227	122	2,318
Accumulated depreciation on disposals	–	–	(199)	–	(153)	(319)	(671)
Transfer to assets classified as held for sale	–	–	(312)	–	–	–	(312)
Exchange differences	(1)	(16)	(34)	(4)	(13)	(46)	(114)
At end of year	882	1,873	1,036	116	616	1,514	6,037
Net carrying value at end of fiscal year 2019	7,532	16,906	7,810	–	354	111	32,713

As of 30 June, 2020 the net book value of the following operating assets were included in property, plant and equipment:

- Uitkomst Colliery: \$19,144 thousand

The discount between the Group's market capitalisation and net asset value at 30 June 2020, together with the deterioration in thermal coal prices during the second half of the year and subsequent to year-end respectively, prompted management to perform an impairment assessment.

Details of the key assumptions used in the impairment assessment are set out in note 3.1. No impairment charge was required for Uitkomst Colliery at 30 June 2020.

17. Right-of-use assets

The Group leases various assets including land, buildings, plant and machinery and vehicles. The movement in the right-of-use assets is as follows:

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Balance at beginning of the period	–	–
Impact of adopting AASB 16 – 1 July 2019	1,893	–
Transfer from property, plant and equipment	1,042	–
Additions	162	–
Depreciation	(737)	–
Transfer to PPE	(60)	–
Foreign exchange differences	(481)	–
Balance at end of period	1,819	–

18. Other receivables

Carrying amount of:

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Other loans	–	219
Balance at beginning of year	219	226
Increase in receivable	17	–
Written-off	(179)	–
Foreign exchange differences	(57)	(7)
Balance at end of year	–	219

19. Other financial assets

Carrying value of financial assets at fair value through profit or loss

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Listed securities		
– Equity securities	–	23
Unlisted securities		
– Equity securities in investment funds ¹	3,407	4,592
	3,407	4,615
Deposits ²	336	414
	3,743	5,029

Fair value movements in other financial assets are recognised in other (losses)/gains in the consolidated statement of profit or loss. Refer note 8.

¹ Listed investments are carried at the market value as at the reporting date and unlisted investments are valued with reference to the investment company's fund statement

² Deposits are classified as financial assets at amortised cost

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

19. Other financial assets continued

The equity securities in investment funds are for the rehabilitation provisions and the Eskom guarantees.

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Balance at beginning of year	5,029	4,328
Revaluations	(69)	157
Interest received	90	81
Disposal of investment	(855)	(121)
Acquisition of investments	452	689
Foreign exchange differences	(904)	(105)
Balance at end of year	3,743	5,029

20. Inventories

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Finished goods	591	360
Consumable stores	474	470
Other	115	235
Provision for obsolete inventory	(71)	(23)
	1,109	1,042

The cost of inventories recognised as a credit during the year in respect of continuing operations was \$273 thousand (2019 expense: \$262 thousand).

21. Trade and other receivables

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Trade receivables	923	2,444
Other receivables	388	552
	1,311	2,996

The carrying amount of trade and other receivables approximate their fair value due to their short-term maturity.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables as disclosed above. The Group does not hold any collateral as security.

Trade receivables inherently expose the Group to credit risk, being the risk that the Group will incur financial loss if customers fail to make payments as they fall due. In order to mitigate the risk of financial loss from defaults, the Group only deals with reputable customers with consistent payment histories. Each customer is analysed individually for creditworthiness before terms and conditions are offered. Customer credit limits are in place and are reviewed on a regular basis. The exposure to credit risk and the creditworthiness of customers is continuously monitored.

The average credit period on trade receivables is 30 days (2019: 30 days).

A loss allowance is considered for all trade receivables, in accordance with AASB 9 *Financial Instruments*, and is monitored at the end of each reporting period. The Group measures the possible loss allowance for trade receivables by applying the simplified approach which is prescribed by AASB 9. In accordance with this approach, the loss allowance on trade receivables is determined as the lifetime ECLs on trade receivables. To measure the ECLs, trade receivables are grouped based on shared credit risk characteristics and the days past due to identify non-performing receivables. In addition, forward-looking macro economic conditions and factors are considered when determining the ECLs for trade receivables, namely trading conditions in the regional coal user markets, as well as economic growth and inflationary outlook in the short-term. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 90 days past due. Based on the year-end ECL assessment performed, no material loss allowance provision was required at the end of the financial year.

No trade receivables were past due at the end of the current or previous financial year.

All trade receivables at the end of the current and previous financial year are denominated in South African rand.

22. Cash and cash equivalents

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Bank balances	2,678	8,811
Bank overdraft	(2,214)	–
	464	8,811
Restricted cash	57	68
	57	68

The bank overdraft relates to an ABSA facility that was secured during the 2019 financial year, from ABSA Bank for \$1,154 thousand (ZAR20,000 thousand). The facility is for short-term working capital requirements and potential expansion opportunities. It has a floating coupon at the South African Prime rate (currently 7.25% per annum) plus 1.0%, with the operating mine, Uitkomst Colliery, debtors ceded as security. The facility is subject to annual review. The short-term working facility was increased by an additional \$1,154 thousand in May 2020 to alleviate the financial challenges during the COVID-19 period. This additional facility is temporary and is payable over twelve months commencing 1 July 2020 to 1 June 2021. The same interest rate applies.

The restricted cash balance of \$0.1 million (2019 - \$0.1 million) is held on behalf of subsidiary companies mainly in respect of the rehabilitation guarantees issued to the DMRE in respect of environmental rehabilitation costs of \$5.4 million (2019: \$6.3 million). This cash is not available for use other than for those specific purposes.

Credit risk

Cash at bank earns interest at a floating rate based on daily bank deposit rates. Cash is deposited at highly reputable financial institutions of a high quality credit standing within Australia, the United Kingdom and the Republic of South Africa.

The fair value of cash and cash equivalents equates to the values as disclosed in this note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

23. Deferred consideration

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Deferred consideration	2,321	4,071
Balance at beginning of year	4,071	2,017
Deferred consideration on Khethekile acquisition	–	629
Deferred consideration on the acquisition of Lukin and Salaita	–	2,527
Repaid during the year – Khethekile	(271)	(239)
Repaid during the year – Pan African	(1,004)	–
Interest accrued	175	162
Deferred finance charges	–	(33)
Fair value adjustment	–	(839)
Foreign exchange	(650)	(153)
Balance at end of year	2,321	4,071
Current	101	1,406
Non-current	2,220	2,665
	2,321	4,071

Included in the prior year balance is the deferred consideration for the acquisition of PAR Coal from Pan African Resources Plc on 30 June 2017. The final amount was settled on 1 July 2019.

Khethekile acquisition deferred consideration

During the prior period, as part of the acquisition of Khethekile Mining (Pty) Ltd (Khethekile) (refer note 35), the transaction included a deferred consideration of \$629 thousand (ZAR8,281 thousand) of the acquisition price. This amount is payable in monthly instalments of \$20 thousand (ZAR350 thousand) over 27 months. There is no interest payable on the outstanding balance. This obligation has been accounted for using an effective interest rate of 11%.

Lukin and Salaita deferred consideration

In the prior year, the Company's subsidiary, Baobab, completed the acquisition of the properties Lukin and Salaita, the key surface rights required for its Makhado hard coking and thermal coal project for an acquisition price of \$4,038 thousand (ZAR70,000 thousand). \$2,019 thousand (ZAR35,000 thousand) of the acquisition price has been deferred to the earlier of:

- The third anniversary of the transfer of the properties
- The first anniversary of production of coal underlying the properties
- Completion of a potential land claims and expropriation process. In terms of current legislation, this will result in Baobab receiving market related compensation and will be followed by negotiations with the Department of Land Affairs and the successful claimants, who are shareholders in Baobab, for long-term access to the properties

The deferred consideration accrues interest at the South African prime interest rate (currently 7%) less 3.0%.

24. Borrowings

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Industrial Development Corporation of South Africa Limited	12,587	12,782
Pan African Resources Management Services (Pty) Ltd	1,008	1,363
Environmental and Process Technologies (Pty) Ltd	–	154
	13,595	14,299
Balance at beginning of year	14,299	10,191
PARMS loan acquired	–	1,550
Enprotec loan	–	579
Repayment – PARMS	(220)	(231)
Repayment Enprotec	(140)	(461)
Interest accrued	2,566	2,981
Deferred finance charges	–	(1)
Foreign exchange	(2,910)	(309)
Balance at end of year	13,595	14,299

Industrial Development Corporation of South Africa Limited

The Company entered into a Loan Agreement with the IDC and Baobab, a subsidiary of MC Mining and owner of the Mining Right for the Makhado Project. In terms of the Loan Agreement, the IDC will advance loan funding up to \$13,846 thousand (ZAR240,000 thousand) to Baobab for use in the project to advance the operations and implementation of the project. Under the Loan Agreement, the loan funding is to be provided in two equal tranches of \$6,923 thousand (ZAR120,000 thousand) upon written request from Baobab.

In May 2017, the first tranche was drawn down by the Company. This is repayable on the third anniversary of each advance. On the third anniversary, the Company is required to repay the loan amount plus an amount equal to the after tax internal rate of return equal to 16% of the amount of each advance.

MCM is also required to issue warrants under the Loan Agreement, in respect of MCM shares, to the IDC pursuant to each advance date as soon as the relevant shareholder approval is obtained. The warrants for the first draw down equates to 2.5% of the entire issued share capital of MCM as at 5 December 2016. This equated to 2,408,752 shares. The price at which IDC shall be entitled to purchase the MCM shares is equal to a thirty percent premium to the 30 day volume weighted average price of the MCM shares as traded on the JSE as at 5 December 2016 (ZAR12 per share post the share consolidation). The IDC is entitled to exercise the warrants for a period of five years from the date of issue.

Furthermore, upon each advance date, Baobab shall be required to issue new ordinary shares in Baobab to the IDC equivalent to 5% of the entire issued share capital of Baobab at such time. New ordinary shares equivalent to 5% in Baobab were issued to the IDC following the first advance.

If the second tranche of \$8,521 thousand (ZAR120,000 thousand) is not required by Baobab and therefore not advanced by Baobab, the IDC may elect to exercise one of the following rights:

- Baobab shall issue new ordinary shares in Baobab equivalent to 5% of the entire issued share capital of Baobab to the IDC for an aggregate subscription price of \$4.3 million (ZAR60,000 thousand)
- Baobab shall issue ordinary shares in Baobab equivalent to 1% of the entire issued share capital of Baobab to the IDC for an aggregate share price of \$0.07 (ZAR1)
- A penalty fee of \$852 thousand (ZAR12,000 thousand) shall be paid to the IDC by Baobab.

In July 2019, the Company secured a term loan facility from the IDC for the construction of Phase 1 of the Makhado Project subject to various conditions precedent including:

- MC Mining issuing additional equity to shareholders for a minimum of R240,000 thousand (\$13,846 thousand)
- Settlement of the existing 2017 Loan Agreement with the IDC
- Cancellation of the undrawn second tranche of the existing Loan Agreement

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

24. Borrowings continued

Industrial Development Corporation of South Africa Limited continued

The Company was in advanced discussions to secure the necessary funding when the COVID-19 pandemic arose. This resulted in a conditional restructuring of the existing Loan Agreement subsequent to the year-end. The IDC agreed that Baobab could draw down \$2,308 thousand (ZAR40,000 thousand) of the second tranche and that the Phase 1 term loan will still form part of the composite Makhado Phase 1 funding package provided that the \$2,308 thousand (ZAR40,000 thousand) is repaid prior to 30 November 2020. In addition, the repayment of the first tranche (which should have taken place in May 2020), plus accrued interest will be delayed until November 2020.

This agreement was conditional upon the Company raising \$865 thousand (ZAR15,000 thousand) in the form of new equity. This condition was satisfied in August 2020 (refer note 41 for details).

The second tranche remains undrawn at the date of this report.

Pan African Resources Management Services (Pty) Ltd

As part of the acquisition of the underground mining equipment and liabilities of Khethekile (refer note 34), the Group assumed a loan of \$1,458 thousand (ZAR20,539 thousand) from Pan African Resources Management Services (Pty) Ltd (PARMS). The loan bears interest at the South African Prime rate and is compounded monthly. It is repayable in 48 monthly instalments of approximately \$31 thousand (ZAR543 thousand) per month.

Environmental and Process Technologies (Pty) Ltd (Enprotec)

During the prior period, Uitkomst Colliery entered into an agreement with Enprotec for the supply and installation of an upgrade to modify its plant for the purchase price of \$503 thousand (ZAR8,717 thousand). This was to facilitate the production of an additional high ash, coarse discard product. The purchase price was payable over 12 instalments of \$42 thousand (ZAR726 thousand). This obligation was accounted for using an effective interest rate of 11% and was fully settled in the current period.

25. Provisions

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Employee provisions	197	350
Biodiversity offset provision	1,834	2,219
Rehabilitation provisions	3,162	4,531
	5,193	7,100

Employee provisions

The provision for employees represents unused annual leave entitlements.

Biodiversity offset provision

The BOA was signed by the DEA, SANParks Board and the Company to the value of \$3,905 thousand (ZAR55,000 thousand) over a 25 year period. The BOA commits the Company to pay \$3,173 thousand (ZAR55,000 thousand) to the South African National Parks Board over a period of 25 years. The following payment arrangement has been agreed:

- Phase 1 – ZAR2,000 thousand paid in 2015
- Phase 2 – ZAR15,000 thousand from year 2016 to 2021 (*ZAR2,500 thousand annually)
- Phase 3 – ZAR13,000 thousand from year 2022 to 2028 (*ZAR1,8000 thousand annually)
- Phase 4 – ZAR13,000 thousand from 2029 to 2033 (*ZAR2,600 thousand annually)
- Phase 5 – ZAR12,000 thousand from 2034 to 2038 (*ZAR2,400 thousand annually)

* For the purpose of the present value calculation, these payments per phase have been assumed as equal annual payments and discounted at the South Africa inflation rate of 6%.

Rehabilitation provision

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Balance at beginning of year	4,531	3,503
Unwinding of discount	312	355
Change in assumptions on rehabilitation provisions	(892)	754
Foreign exchange	(789)	(81)
Balance at end of year	3,162	4,531

The rehabilitation provision represents the current cost of environmental liabilities as at the respective year end. An annual estimate of the quantum of closure costs is necessary in order to fulfil the requirements of the DMRE, as well as meeting specific closure objectives outlined in the mine's EMP.

Although the ultimate amount of the obligation is uncertain, the fair value of the obligation is based on information that is currently available. This estimate includes costs for the removal of all-current mine infrastructure and the rehabilitation of all disturbed areas to a condition as described in the EMP.

The period assumed in the calculation of the present value of the obligation is the shorter of the remaining period of the mining licence and the aggregate of the construction period of the mine and the total estimated LoM.

The current estimate available is inflated by the long-term South African inflation rate of 4.8% annually and the discount rate applied to establish the current obligation is a South Africa Government bond rate at 30 June 2020 of 9.17% (2019: 8.09%) annually.

Due to the changes in assumptions the Vele Colliery, the Makhado Project and Uitkomst Colliery had a decrease in the present value of the environmental obligation.

The Makhado Project is still in exploration phase and no formal decision to mine is currently in place.

Provisions have been analysed between current and non-current as follows:

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Current	197	536
Non-current	4,996	6,564
	5,193	7,100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

26. Deferred tax

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Deferred tax liability	4,078	5,750
The gross movement on the deferred tax account is as follows:		
Balance at beginning of year	5,750	5,991
Provisions	66	6
Capital allowances	(475)	(25)
Prepayments	–	(11)
Prior year adjustment	(34)	(71)
Foreign exchange	(1,229)	(140)
Balance at end of year	4,078	5,750
The deferred tax balances at year-end are represented by:		
Deferred tax assets		
Provisions	292	361
Prepayments	–	11
Balance at end of year	292	372
Deferred tax liabilities		
Capital allowances on property, plant and equipment	(4,370)	(6,122)
Balance at end of year	(4,370)	(6,122)
Net deferred tax liabilities	(4,078)	(5,750)

Deferred income tax assets are recognised for tax losses carried-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The deferred tax assets recognised relate to Uitkomst Colliery. The Group did not recognise deferred income tax assets of \$45,571 thousand (2019: \$53,630 thousand) in respect of losses amounting to \$13,152 thousand (2019: \$16,006 thousand) and unredeemed capital expenditure of \$45,571 thousand (2019: \$37,624 thousand) that can be carried forward against future taxable income.

27. Leases

During the prior period, as part of the acquisition of Khethekile (refer note 35), Uitkomst Colliery assumed certain vehicle leases.

In addition, Uitkomst Colliery also entered into an asset financing arrangement with ABSA Bank Limited for the acquisition of new underground mining equipment. The rolling five-year facility is subject to a floating coupon at the South African prime rate (currently 10% per annum) plus 0.5% and is secured by the mining equipment purchased.

In the previous year, the group only recognised lease liabilities in relation to leases that were classified as 'finance leases' under AASB 117 *Leases*. The assets were presented in property, plant and equipment. In the current period previously, classified operating leases have been classified in terms of AASB 16 as disclosed in note 1.

The movement in the lease liabilities is as follows:

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Balance at beginning of the period	1,001	–
Acquired on acquisition of Khethekile (note 35)	–	92
Impact of adopting AASB 16 – 1 July 2019	1,893	–
Additions	162	960
Interest	258	328
Repayments	(994)	(378)
Foreign exchange differences	(485)	(1)
Balance at end of period	1,835	1,001

The maturity of the Group's undiscounted lease payments is as follows:

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Not later than one year	928	312
Later than one year and not later than five years	1,122	941
Later than five years	108	–
	2,158	1,253
Less future finance charges	(323)	(252)
Present value of minimum lease payments	1,835	1,001

Reconciliation between lease commitments as at 30 June 2019 and IFRS 16 lease liability as at 1 July 2019:

	1 July 2019 \$'000
Lease commitments as at 30 June 2019	2,618
Short term leases	(145)
Low value leases	(4)
Discounting of lease liabilities	(572)
Foreign exchange	(4)
Impact of adopting IFRS 16 – 1 July 2019	1,893

28. Other liabilities

This liability related to a retention agreement entered into with employees to provide a retention payment to encourage employees to remain with the Company, perform in a highly effective manner and proactively execute the commercial strategy that the Company employs.

29. Trade and other payables

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Trade payables	1,404	1,777
Accrued expenses	3,999	6,199
Other	1,060	874
	6,463	8,850

The average credit period is 30 days. Interest at the South African prime overdraft rate is charged on overdue creditors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

30. Issued capital

During the reporting period, the only shares issued were 208,537 shares to David Brown who resigned as CEO on 31 January 2020. These shares were issued in lieu of his six-month notice period, being one-third of the 2017 Performance Rights granted to him.

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Fully paid ordinary shares		
141,088,122 (2019: 140,879,585) fully paid ordinary shares	1,041,080	1,040,950
	Number	\$'000
Movements in fully paid ordinary shares		
At 30 June 2019	140,879,585	1,040,950
Shares issued	208,537	131
Share issue cost	–	(1)
At 30 June 2020	141,088,122	1,041,080

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings.

In the event of winding up of the Company ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

Share options granted

Share options granted under the Company's employee share option plan and Performance Rights carry no rights to dividends and no voting rights. Further details of the employee share option plan are provided in note 33.

31. Accumulated deficit

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Accumulated deficit at the beginning of the financial year	(884,297)	(851,535)
Net loss attributed to Owners of the Company	(12,048)	(33,421)
Transferred from share-based payment reserve	754	670
Dividend expense	–	(11)
Accumulated deficit at the end of the financial year	(895,591)	(884,297)

32. Reserves

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Capital profits reserve	91	91
Share based payment reserve	1,460	2,234
Warrants reserve	1,134	1,134
Foreign currency translation reserve	(48,603)	(28,060)
	(45,918)	(24,601)
Movements for the year can be reconciled as follows:		
Share-based payments reserve		
Opening balance	2,234	2,052
Share options issued during the year	769	852
Share options cancelled/forfeited/expired	(1,412)	(670)
Shares issued	(131)	–
Closing balance	1,460	2,234
Foreign currency translation reserve		
Opening balance	(28,060)	(22,352)
Exchange differences on translating foreign operations	(20,742)	(5,708)
Liquidation of Freewheel	199	–
Closing balance	(48,603)	(28,060)
Warrants reserve		
Opening balance	1,134	1,134
Warrants issued	–	–
Closing balance	1,134	1,134

Nature and purpose of reserves:

Capital reserve

The capital profits reserve contains capital profits derived during previous financial years.

Share-based payment reserve

Share-based payment reserve represents the value of unexercised share options and Performance Rights to Directors and employees. It also includes IFRS2 Black Economic Empowerment charges.

Foreign currency translation reserve

The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations.

Warrants reserve

The warrants reserve relates to the warrants issued to the IDC in terms of the Loan Agreement to advance funding to Baobab. Refer note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

33. Share-based payments

Employee share option plan

The Group maintains certain Employee Share Option Plans (ESOPs) for executives and senior employees of the Group as per the rules approved by shareholders on 30 November 2009. In accordance with the terms of the schemes, eligible executives and senior employees may be granted options to purchase ordinary shares. Share options have not been granted to employees.

Share options granted to Directors and officers

The Group also grants share options to Directors, officers, lenders and equity funders of the Group outside the ESOP. In accordance with the Group's policies, Directors and officers may be granted options to purchase ordinary shares.

Share option terms, vesting requirements and options outstanding at 30 June 2020

Each option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options hold no voting or dividend rights, and are not transferable. Upon exercise of the options the ordinary shares received rank equally with existing ordinary shares.

There were no share-based payments existing at 30 June 2020.

Fair value of share options granted during the year

There were no share options granted during the period.

Prior period options were priced using a binomial option pricing model and the Black-Scholes option pricing model was used to validate the price calculated. Where relevant, the expected life used in the model has been adjusted based on management's best estimate of the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations.

Expected volatility is calculated by Hoadley's volatility calculator for one, two and three year periods and a future estimated volatility level of 100% was used in the pricing model.

The total share-based payment expense recognised in the current financial year is disclosed in the statement of changes in equity.

Movement in share options (post share consolidation)

	Year ended 30 June 2020	Year ended 30 June 2019
Options outstanding at beginning of year	–	1,250,000
Options expired	–	(1,250,000)
Options outstanding at end of year	–	–
Weighted average exercise price (A\$)		1.40
Options exercisable	–	–

Share options exercised during the year

No share options were exercised during the period.

Share options outstanding at the end of the year

The share options outstanding at the end of the year were nil. The options in the prior year had a weighted average exercise price of A\$1.40.

Performance Rights Plan

The Performance Rights factor in a hurdle rate based on the compound annual growth rate of total shareholder return across the period from the grant date. The Performance Rights were valued using a hybrid employee share option pricing model to simulate the total shareholder return of MC Mining at the expiry date using a Monte-Carlo model.

On 22 November 2019, 3,722,907 Performance Rights were issued to senior management. The number of rights is split between three tranches. The market based vesting conditions are to be measured over the one year period from 22 November 2019 to 22 November 2020 for tranche 1, the two year period from 22 November 2019 to 22 November 2021 for tranche 2 and the three year period from 22 November 2019 to 22 November 2022 for tranche 3.

Inputs into the model were as follows:

	Tranche 1	Tranche 2	Tranche 3
Number of rights	1,246,487	1,246,487	1,246,487
22 November 2019 closing price	ZAR4.80	ZAR4.80	ZAR4.80
Exercise price	Nil	Nil	Nil
Expiry date	22 November 2022	22 November 2022	22 November 2022
Performance period (years)	1	2	3
Risk free interest rate	7.42%	7.42%	7.42%

On 23 November 2018, 3,465,558 Performance Rights were issued to senior management.

Inputs into the model were as follows:

	Performance Rights
Spot 5 day VWAP	ZAR7.5
Exercise price	Nil
Expiry date	22 November 2021
Performance period	3.00
Risk free interest rate	7.28%

On 24 November 2017, 1,722,383 Performance Rights were issued to senior management.

Inputs into the model were as follows:

	Performance Rights
Spot 5 day VWAP	ZAR8.8
Exercise price	Nil
Expiry date	23 November 2020
Performance period	3.00
Risk free interest rate	8.09%

Performance Rights issued on 30 November 2016 expired during the current year on 29 November 2019.

The total share-based payment expense recognised in relation to the Performance Rights in the current financial year is \$416 thousand (FY2019: \$852 thousand).

Movement in Performance Rights

	Year ended 30 June 2020	Year ended 30 June 2019
Performance Rights outstanding at beginning of year	6,270,814	3,832,467
Performance Rights expired	(1,082,875)	(1,027,209)
Performance Rights forfeited	(3,958,837)	–
Performance Rights granted	3,722,907	3,465,556
Performance Rights shares issued	(208,537)	–
Performance Rights outstanding at end of year	4,743,472	6,270,814

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

34. Non-controlling interest

Non-controlling interests comprise the following:

	Year ended 30 June 2020	Year ended 30 June 2019
Freewheel Trade and Invest 37 Proprietary Limited	–	575
Baobab non-controlling interest	(628)	(486)
	(628)	89

35. Business combinations

The underground operations at Uitkomst Colliery were historically undertaken by an independent mining contractor, Khethekile. During the prior period, Uitkomst acquired all of Khethekile's mining equipment, loans, trade payables, accrued expenses and took transfer of the Khethekile employees working at Uitkomst Colliery.

The acquisition of the Khethekile business was agreed to be settled as follows:

- A cash consideration of \$1,238 thousand (ZAR16,400 thousand) of which \$521 thousand (ZAR6,900 thousand) was payable on closing and the balance, \$717 thousand (ZAR9,500 million) payable in 27 monthly instalments

Fair value of assets and liabilities acquired:

	1 August 2018 \$'000
Non-current assets	
Plant and equipment	5,008
Non-current liabilities	
Loans	1,263
Finance lease liabilities	11
Current liabilities	
Trade and other liabilities	1,479
Loans	1,024
Finance lease liabilities	81
	1,150

Purchase consideration

	1 August 2018 \$'000
Cash consideration paid	521
Cash consideration deferred	629
	1,150

Goodwill

No goodwill arose on the acquisition of the assets, as the fair value of the assets were equivalent to the acquisition value of the assets.

36. Financial instruments

36.1. Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged.

The capital structure of the Group consists of net deferred consideration and debt (as detailed in notes 23 and 24) (net of cash) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests as detailed in notes 30 to 32).

The Group is not subject to any externally imposed capital requirements.

The Group's risk management committee reviews the capital structure of the Group on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The Group maintained its target-gearing ratio, determined as the proportion of net debt to equity, at 15%. This was to enable the Company to raise the loan from the IDC.

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Net debt ¹	15,452	9,559
Equity ²	98,943	132,141
Debt to equity ratio	16%	7%

¹ Debt is defined as long-term and short-term borrowings as described in notes 23 and 24 less unrestricted cash and cash equivalents

² Equity includes all capital and reserves of the Group that are managed as capital

36.2. Categories of financial instruments

The accounting policies for financial instruments have been applied to the line items below:

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Financial assets		
Other receivables	–	219
Trade and other receivables	1,311	2,996
Cash and cash equivalents	2,678	8,811
Restricted cash	57	68
Other financial assets	3,743	5,029
Total financial assets	7,789	17,123
Financial liabilities		
Deferred consideration	2,321	4,071
Borrowings	13,595	14,298
Bank overdraft	2,214	–
Trade and other payables	6,463	8,850
Total financial liabilities	24,593	27,219

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

36. Financial instruments continued

36.2. Categories of financial instruments continued

Fair value of financial assets and liabilities

The fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged or liability settled in a current transaction between willing parties in an arm's length transaction. The fair values of the Group's financial assets and liabilities approximate their carrying values, as a result of their short maturity or because they carry floating rates of interest.

All financial assets and liabilities recorded in the consolidated financial statements approximate their respective fair values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3, based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities. The balances classed here are financial assets comprising deposits and listed securities (note 19).

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The financial assets classed as Level 2 comprise of investments with investment firms. These investments serve as collateral for rehabilitation guarantees. The fair value has been determined by the investment firms' fund statement (note 19).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

There were no assets reclassified into/out of FVTPL during the year nor were any assets transferred between levels.

As at 30 June 2020	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	–	3,407	–	3,407

As at 30 June 2019	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	23	4,581	–	4,604

36.3. Financial risk management objectives

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Corporate Treasury function reports quarterly to the Group's risk management committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

36.4. Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Australian dollar and the US dollar. Foreign exchange risk arises from future commitments, assets and liabilities that are denominated in a currency that is not the functional currency. Most of the Company's purchases are denominated in SA rand. However, certain items during the exploration, development and plant construction phase as well as long lead-capital items are denominated in US dollars, Euros or Australian dollars. These have to be acquired by the South African operating company due to the South African Reserve Bank's Foreign Exchange Control Rulings. This exposes the South African subsidiary companies to changes in the foreign exchange rates.

The Group's cash deposits are largely denominated in US dollar and SA rand. A foreign exchange risk arises from the funds deposited in US dollar which will have to be exchanged into the functional currency for working capital purposes.

The Group generally does not enter into forward sales, derivatives or other hedging arrangements to manage this risk.

At financial period end, the financial instruments exposed to foreign currency risk movements are as follows:

	Held in GBP \$'000	Held in AUD \$'000	Held in USD \$'000	Total \$'000
Balances at 30 June 2020				
Financial assets				
Cash and cash equivalents ¹	–	7	35	42
Total financial assets	–	7	35	42
¹ Cash includes restricted cash				
Financial liabilities				
Trade and other payables	7	50	–	57
Total financial liabilities	7	50	–	57
	Held in GBP \$'000	Held in AUD \$'000	Held in USD \$'000	Total \$'000
Balances at 30 June 2019				
Financial assets				
Cash and cash equivalents ¹	–	77	748	825
Total financial assets	–	77	748	825
¹ Cash includes restricted cash				
Financial liabilities				
Trade and other payables	12	102	25	139
Total financial liabilities	12	102	25	139

The following table details the Group's sensitivity to a 10% increase and decrease in the US dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% change in foreign currency rates.

Impact on profit/(loss)

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Judgements on reasonable possible movements		
USD/ZAR increase by 10%	2	(69)
USD/ZAR decrease by 10%	(2)	69

36.5. Interest rate risk management

The Group's interest rate risk arises mainly from short-term borrowings, long-term borrowings, cash and bank balances and restricted cash. The Group has variable interest rate borrowings. Variable rate borrowings expose the Group to cash flow interest rate risk.

The Group has not entered into any agreements, such as hedging, to manage this risk.

The following table summarises the sensitivity of the financial instruments held at the reporting date, following a movement in variable interest rates, with all other variables held constant. The sensitivities are based on reasonably possible changes over a financial period, using the observed range of actual historical rates.

The contractual maturities of the Group's financial assets and liabilities at the reporting date were as follows:

	Less than 6 months \$'000	Between 6 – 12 months \$'000	Greater than 12 months \$'000	Total \$'000
Balances at 30 June 2020				
Deferred consideration ¹	104	–	2,371	2,475
Borrowings ¹	12,808	221	663	13,692
Trade and other payables	6,463	–	–	6,463
	19,375	221	3,034	22,630

	Less than 6 months \$'000	Between 6 – 12 months \$'000	Greater than 12 months \$'000	Total \$'000
Balances at 30 June 2020				
Trade and other receivables	1,311	–	–	1,311
Cash and cash equivalents	2,678	–	–	2,678
Restricted cash	–	–	57	57
Other financial assets	–	–	3,743	3,743
	3,989	–	3,800	7,789

¹ Interest bearing at rates between 4% and 22.2%

	Less than 6 months \$'000	Between 6 – 12 months \$'000	Greater than 12 months \$'000	Total \$'000
Balances at 30 June 2019				
Deferred consideration ¹	1,257	149	3,206	4,612
Borrowings ¹	310	15,968	898	17,176
Trade and other payables	6,843	–	–	6,843
	8,410	16,117	4,104	28,631

	Less than 6 months \$'000	Between 6 – 12 months \$'000	Greater than 12 months \$'000	Total \$'000
Balances at 30 June 2019				
Other receivables	–	–	219	219
Trade and other receivables	2,996	–	–	2,996
Cash and cash equivalents	8,811	–	–	8,811
Restricted cash	–	–	68	68
Other financial assets	23	–	4,995	5,018
	11,830	–	5,282	17,112

¹ Interest bearing at rates between 7% and 22.2%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

37. Notes to the statement of cash flows

Reconciliation of cash

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

		Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Cash and bank balances	22	464	8,811

Reconciliation of loss before tax to net cash used in operations

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Loss before tax (continuing and discontinuing operations)	(12,850)	(33,522)
Add back:		
Depreciation	2,608	2,318
Net impairment expense	1,257	21,916
Share-based payment	416	852
Bad debt written off	182	1,100
Fair value adjustment	58	(839)
Re-valuation of investments	69	(82)
Movement in provisions	(155)	(31)
Finance costs (net)	2,909	4,639
Disposal of assets	113	(904)
Freewheel NCI written-off	(575)	–
Foreign exchange loss/(gains) on operating activities	598	(244)
Changes in working capital:		
Increase in inventories	(350)	(401)
Decrease in trade and other receivables	1,250	1,656
Decrease in trade and other payables	(580)	(1,735)
Cash used in operations	(5,050)	(5,277)

38. Contingencies and commitments

Contingent liabilities

The Group has no significant contingent liabilities at the reporting date.

Commitments

In addition to the commitments of the parent entity as disclosed under note 42, subsidiary companies have typical financial commitments associated with their Mining Rights granted by the DMRE.

39. Related party disclosures

The aggregate compensation made to Directors and other members of key management personnel of the Company and the Group is set out below:

	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Short-term employee benefits	1,242	1,347
Post-employment benefits	6	4
Termination benefits	172	–
Share-based payments	84	328
	1,504	1,679

The Group has not provided any of its key management personnel with loans.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

40. Controlled entities

Particulars in relation to controlled entities.

	Country of incorporation	Year ended 30 June 2020 %	Year ended 30 June 2019 %
Bakstaan Boerdery Proprietary Limited *	South Africa	100	100
Baobab Mining & Exploration Proprietary Limited**	South Africa	95	95
Chapudi Coal Proprietary Limited ***	South Africa	74	74
Coal of Africa & ArcelorMittal Analytical Laboratories Proprietary Limited	South Africa	50	50
Cove Mining NL	Australia	100	100
Freewheel Trade and Invest 37 Proprietary Limited****	South Africa	74	74
Fumaria Property Holdings Proprietary Limited	South Africa	100	100
Golden Valley Services Proprietary Limited	Australia	100	100
GVM Metals Administration (South Africa) Proprietary Limited	South Africa	100	100
Harrisia Investments Holdings Proprietary Limited	South Africa	100	100
Kwezi Mining Exploration Proprietary Limited ***	South Africa	74	74
Limpopo Coal Company Proprietary Limited	South Africa	100	100
Makhado Centre of Learning NPC**	South Africa	95	95
MbeuYashu Proprietary Limited	South Africa	74	74
Newshelf 1384 Proprietary Limited	South Africa	100	100
Nyambose Mining Proprietary Limited	South Africa	100	100
Pan African Resources Coal Holdings Proprietary Limited	South Africa	100	100
Regulus Investment Holdings Proprietary Limited	South Africa	100	100
Silkwood Trading 14 Proprietary Limited	South Africa	100	100
Uitkomst Colliery Proprietary Limited	South Africa	100	100

* Subsidiary company of Fumaria Property Holdings Proprietary Limited

** 69% on completion of the Makhado Project BBBEE transactions

*** Subsidiary companies of MbeuYashu Proprietary Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

41. Events after the reporting period

Funding

Restructuring of the loan agreement with the IDC resulted in a drawdown of ZAR40,000 thousand (\$2,308 thousand) of the existing facility and an MC Mining equity raise for a collective ZAR15,000 thousand (\$865 thousand).

In August 2020 13,331,433 shares were issued for a collective \$865 thousand resulting in MC Mining having 154,419,555 shares in issue.

The Company also entered into a subscription agreement with Columbia Skies Holdings (Pty) Limited for the issue of new shares in MC Mining for an amount of \$577 thousand (ZAR 10,000 thousand).

Sale of land in Harrisia Investments Holdings Proprietary Limited (Harrisia)

Subsequent to year-end, the Company finalised the sale of land and buildings held by its subsidiary Harrisia. These land and buildings were classified as assets held for sale at 30 June 2020.

42. Parent entity financial information

	Parent entity	
	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
Summary financial information		
Non-current assets	99,332	133,026
Current assets	75	886
Total assets	99,407	133,912
Non-current liabilities	–	–
Current liabilities	688	1,771
Total liabilities	688	1,771
Net assets	98,719	132,141
Shareholders' equity		
Issued capital	1,041,080	1,040,950
Accumulated deficit and reserves	(942,361)	(908,809)
	98,719	132,141
Profit/(loss) for the year	(3,632)	(23,871)
Total comprehensive loss	(3,632)	(23,871)

Contingencies and commitments

- MC Mining has subordinated all loans to subsidiary companies
- MC Mining has provided surety for the IDC borrowing facility entered into by Baobab (refer note 24)



INDEPENDENT AUDITOR'S REPORT

To the members of MC Mining Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of MC Mining Limited (the Company) and its controlled entities (together the Group) is in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended
- b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2020
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the Directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial report section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial report, which indicates that the Group incurred a consolidated net loss of US\$12,190,000 during the year ended 30 June 2020 and as at 30 June 2020 had a consolidated net cash outflow from operating activities of US\$4,937,000, and consolidated net current liabilities of US\$17,298,000.

Note 1 indicates that the Group is dependent on the deferral and the settlement of debt tranches relating to the existing IDC term facility. The note further states that additional financing or raising additional capital is also required to enable the Group to continue its normal business activities, including the commencement of the development of Phase 1 of the Makhado Project.

These conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement.

Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



INDEPENDENT AUDITOR'S REPORT continued

To the members of MC Mining Limited

Materiality

For the purpose of our audit we used overall Group materiality of US\$1.350 million, which represents 1% of the Group's consolidated total assets.

We chose the Group's consolidated total assets as the benchmark, because in our view, it is the benchmark which reflects the key focus of the users of the consolidated financial report, and is a generally accepted benchmark. This is because the Group is still in the exploration and development phase and as such users are interested in determining if the Group is achieving its strategy of becoming a sustainable mid-tier coal producer. We chose 1% which is consistent with quantitative materiality thresholds used for companies that are in the exploration and development phase.

Audit scope

Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of exploration and evaluation assets, development assets and property, plant and equipment Refer to the following notes to the consolidated financial report for detail: • Note 3.1: Asset carrying values and impairment charges; • Note 14: Exploration and evaluation of assets; • Note 15: Development assets; and • Note 16: Property, plant and equipment. At 30 June 2020, the Group held exploration and evaluation assets with a carrying amount of US\$78,714,000, development assets of US\$20,720,000, and property, plant and equipment of US\$24,396,000, respectively. At each reporting date, the Group evaluates whether there are events and conditions specific to the Group that could be indicative of impairment triggers. In the current year, the Group has concluded that there were indicators of impairment as a result of the discount between the Group's market capitalisation and net asset value, together with the deterioration in thermal and premium coal prices during the second half of the year, and subsequent to year-end, respectively.	Our audit addressed the key audit matter as follows: Through discussions with management, we obtained an understanding of their impairment assessments and the methodologies and models used in determining the recoverable amounts of the CGUs. We obtained the Group's assessments and evaluated the reasonableness of the recoverable amount for the CGUs by performing the following procedures: • Making use of our valuation expertise, we assessed these methodologies and models applied by the Group and found these to be in line with industry norms. • We tested the mathematical accuracy of the discounted cash flow models. • We assessed the impairment models against the requirements of Australian Accounting Standards and generally accepted methodologies. • We assessed the appropriateness of the indicators identified by the Group in their assessment by comparing the Group's consolidated net asset value with its market capitalisation and considering trends in thermal and premium coal prices during the second half of the year, and subsequent to year-end.



Key audit matter

The recoverable amounts for the Group's CGUs are assessed using fair value less costs to sell calculations, which incorporate various key assumptions such as future coal prices, future operating costs, discount rates, foreign exchange rates and coal reserves.

For CGUs classified as development assets and property, plant and equipment, the values are based on estimates of future discounted cash flows per the latest board-approved business forecasts regarding production volumes, costs of production, capital expenditure, coal prices and market forecasts for foreign exchange rates.

For exploration and evaluation asset CGUs the values are determined based on *in situ* resource multiple based values (fair value less costs to sell).

Further detail of the key financial assumptions and methodologies used in the determination of the recoverable amounts of the CGUs are disclosed in note 3.1 to the consolidated financial report.

As described in note 9 to the consolidated financial report, no impairment was recognised in respect of exploration and evaluation assets, development assets and property, plant and equipment for the year ended 30 June 2020.

We considered the impairment assessment of exploration and evaluation assets, development assets and property, plant and equipment to be a matter of most significance to the current year audit due to the significant judgements applied by the Group in determining the recoverable amounts of the CGUs to which these assets belong.

How our audit addressed the key audit matter

- Using our knowledge of the Group's operations and internal Group reporting structure, we evaluated whether the CGUs identified by the Group in their assessment represent the smallest identifiable groups of assets that can generate largely independent cash inflows. Based on our work performed, we accepted the Group's identification of CGUs as being consistent with the Group's operations and internal Group reporting.
- Through inspection and enquiry from management we evaluated whether the CGUs included assets, liabilities and cash flows directly attributable to each CGU and a reasonable allocation of corporate assets and overheads.
- Making use of our valuations expertise, we assessed the reasonableness of the key financial assumptions used in the Group's calculations by performing the following procedures:
 - We assessed the reasonableness of the thermal, hard coking coal prices and rand/US dollar exchange rates by comparing these key financial assumptions to a range of observable external forecasts issued by market analysts.
 - We evaluated the real discount rates by assessing relevant comparable third-party sources and market data such as the cost of debt, risk-free rates, market risk premiums, debt to equity ratios and betas of comparable companies.
- We considered whether the Group's assumptions relating to production volumes and operating cash outflows used in the discounted cash flow models are consistent with the Group's mine plans, resource statements prepared by the competent person and operating budgets, as well as actual performance outcomes achieved to date (where applicable), by performing the following procedures:
 - We agreed the cost to the approved budgets
 - We assessed the approved budgets against prior period actual results for consistency
 - We agreed the life-of-mine to the approved mine plan received from the competent person
 - We assessed the assumptions used by the Group against market related rates
 - We evaluated the competence, experience, objectivity and qualifications of the Group's competent person
- We considered the reasonableness of the Group's sensitivity analysis in relation to the key financial assumptions used in the impairment model by performing an independent calculation to assess under which assumptions an impairment would occur

We evaluated the adequacy of the disclosures made in note 3.1 to the consolidated financial report against the requirements of Australian Accounting Standards.



INDEPENDENT AUDITOR'S REPORT continued

To the members of MC Mining Limited

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 50 to 55 of the Directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of MC Mining Limited for the year ended 30 June 2020 complies with section 300A of the Corporations Act 2001.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Douglas Craig

Douglas Craig
Partner

Perth
30 September 2020