



ANNUAL FINANCIAL STATEMENTS

For the year ended 30 June 2019

(expressed in United States dollars unless otherwise stated)



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2019

	Note	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Continuing operations			
Revenue	5	26,403	32,693
Cost of sales	6	(25,389)	(27,340)
Gross profit		1,014	5,353
Other operating income	7	1,606	1,410
Other operating gains/(losses)	8	969	(1,192)
Net impairment expense	9	(21,916)	(87,475)
Administrative expenses	10	(10,556)	(12,704)
Operating loss		(28,883)	(94,608)
Interest income		1,048	1,201
Finance costs	11	(5,687)	(3,636)
Loss before tax		(33,522)	(97,043)
Income tax (charge)/credit	12	(204)	(6,720)
Net loss for the year from continuing operations		(33,726)	(103,763)
Discontinued operations			
Profit for the year from operations classified as held-for-sale	13	–	2,185
LOSS FOR THE YEAR		(33,726)	(101,578)
Other comprehensive loss, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		(5,708)	(2,393)
Total comprehensive loss for the year		(39,434)	(103,971)
Loss for the year attributable to:			
Owners of the Company		(33,421)	(101,413)
Non-controlling interests		(305)	(165)
		(33,726)	(101,578)
Total comprehensive loss attributable to:			
Owners of the Company		(39,129)	(103,806)
Non-controlling interests		(305)	(165)
		(39,434)	(103,971)
Loss per share	14		
From continuing operations and discontinued operations			
Basic and diluted (cents per share)		(23.72)	(71.99)
From continuing operations			
Basic and diluted (cents per share)		(23.72)	(73.54)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2019

	Note	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
ASSETS			
Non-current assets			
Exploration and evaluation expenditure	15	94,871	116,889
Development assets	16	26,919	28,033
Property, plant and equipment	17	32,713	29,452
Other receivables	18	219	226
Other financial assets	19	5,006	4,324
Restricted cash	22	68	84
Loan receivable	13	–	3,946
Total non-current assets		159,796	182,954
Current assets			
Inventories	20	1,042	730
Trade and other receivables	21	2,996	5,496
Tax receivable		201	36
Loan receivable	13	–	3,290
Other financial assets	19	23	4
Cash and cash equivalents	22	8,811	10,931
Total current assets		13,073	20,487
Assets classified as held for sale		939	–
Total assets		173,808	203,441
LIABILITIES			
Non-current liabilities			
Deferred consideration	23	2,665	–
Borrowings	24	898	10,191
Provisions	25	6,564	5,458
Deferred tax liability	26	5,750	5,991
Other liabilities	27	–	181
Finance lease liabilities		689	–
Total non-current liabilities		16,566	21,821
Current liabilities			
Deferred consideration	23	1,406	2,017
Borrowings	24	13,401	–
Trade and other payables	28	8,850	6,845
Provisions	25	536	569
Other liabilities	27	176	1,024
Current tax liabilities		420	431
Finance lease liabilities		312	–
Total current liabilities		25,101	10,886
Total liabilities		41,667	32,707
NET ASSETS		132,141	170,734
EQUITY			
Issued capital	29	1,040,950	1,040,950
Accumulated deficit	30	(884,297)	(851,535)
Reserves	31	(24,601)	(19,075)
Equity attributable to owners of the Company		132,052	170,340
Non-controlling interests	33	89	394
TOTAL EQUITY		132,141	170,734

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2019

	Issued capital \$'000	Accum- ulated deficit \$'000	Share based payment reserve \$'000	Capital profits reserve \$'000	Warrants reserve \$'000	Foreign currency translation reserve \$'000	Attribut- able to owners of the parent \$'000	Non- controlling interests \$'000	Total equity \$'000
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)	(33,129)	(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
Balance at 1 July 2017	1,040,950	(750,100)	713	91	1,134	(20,473)	272,315	559	272,874
Total comprehensive loss for the year	–	(101,413)	–	–	–	(1,879)	(103,292)	(165)	(103,457)
Loss for the year	–	(101,413)	–	–	–	–	(101,413)	(165)	(101,578)
Other comprehensive loss, net of tax	–	–	–	–	–	(2,393)	(2,393)	–	(2,393)
Sale of Mooiplaats Colliery	–	–	–	–	–	514	514	–	514
Dividends	–	(22)	–	–	–	–	(22)	–	(22)
Performance grants issued to employees	–	–	616	–	–	–	616	–	616
Share options cancelled/forfeited	–	–	(161)	–	–	–	(161)	–	(161)
IFRS 2 BEE charge	–	–	884	–	–	–	884	–	884
Balance at 30 June 2018	1,040,950	(851,535)	2,052	91	1,134	(22,352)	170,340	394	170,734

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2019

	Note	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Cash flows from operating activities			
Receipts from customers		32,068	36,923
Payments to suppliers and employees		(37,345)	(34,921)
Cash generated from/(used in) operations	36	(5,277)	2,002
Interest received		403	603
Interest paid		(48)	(11)
Dividend paid		(33)	
Tax paid		(457)	(1,234)
Net cash generated from/(used in) operating activities		(5,412)	1,360
Cash flows from investing activities			
Purchase of property, plant and equipment	17	(562)	(2,887)
Proceeds from the sale of property, plant and equipment		3,499	96
Investment in development assets	16	(5)	(4)
Investment in exploration assets	15	(3,350)	(3,801)
Khethekile acquisition – consideration paid	34	(521)	–
Khethekile acquisition – deferred consideration payment	23	(239)	–
Net proceeds from the sale of Mooiplaats Colliery	13	6,457	2,315
(Increase)/decrease in other financial assets	19	(649)	4,921
Increase in restricted cash		(16)	(32)
Net cash generated from investing activities		4,614	608
Cash flows from financing activities			
Borrowings repayments	24	(692)	–
Finance lease repayments		(378)	–
Net cash generated by financing activities		(1,070)	–
Net increase/(decrease) in cash and cash equivalents		(1,868)	1,968
Net foreign exchange differences		(252)	(683)
Cash and cash equivalents at beginning of the year		10,931	9,646
Cash and cash equivalents at the end of the year	22	8,811	10,931

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2019

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 MR, 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 2019 of \$33,726 thousand (30 June 2018: \$103,763 thousand). The current period loss includes a non-cash net impairment of \$21,916 thousand mainly related to the impairment of Australian dollar payments made by the Group in 2007 for the acquisition of two new order prospecting rights, which have been incorporated into the Makhado new order mining right. The prior period loss included a non-cash impairment expense of \$87.5 million relating to the Vele Colliery. During the twelve month period ended 30 June 2019 net cash outflows from operating activities were \$5,412 thousand (30 June 2018 net inflow: \$1,360 thousand). As at 30 June 2019 the Consolidated Entity had a net current liabilities position (before assets held for sale) of \$12,028 thousand (30 June 2018: net current asset position of \$9,601 thousand).

The current liability position as at 30 June 2019 is primarily a result of borrowings of \$12,782 thousand payable to the IDC during May 2020.

The Directors have prepared a cash flow forecast for the 18 month period ended 31 December 2020, taking into account available facilities and expected cash flows to be generated by Uitkomst, which indicates that the Consolidated Entity will have sufficient cash flow to fund their operations for at least the twelve-month period from the date of signing this report.

These cash flow forecasts include an assumed drawdown of the new IDC term loan facility of \$17,397 thousand (ZAR245,000 thousand) that was conditionally approved subsequent to year end and a repayment in full of the currently utilised IDC facility. Further, it is assumed that additional funding of \$35,000 thousand will be raised through a combination of debt, equity and other funding and that development of Phase 1 of the Makhado project will subsequently commence within the 12 months following the signing of these financial statements. The Consolidated Entity's ability to continue as a going concern for the 12 months following the signing of these financial statements is therefore dependant on the raising of the above-mentioned additional funding of \$35,000 thousand. The Consolidated Entity's ability to continue as a going concern beyond the 12 months following the signing of these 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 realize its assets and discharge its liabilities in the normal course of business.

These consolidated 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 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 2019.

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 value in use 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

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 39 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

2. Accounting policies CONTINUED

2.1. Basis of consolidation CONTINUED

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

2. Accounting policies CONTINUED

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 concludes 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 LoM-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.

Deferred stripping costs are included in the cost base of assets when determining a cash-generating unit 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

2. Accounting policies CONTINUED

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

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 value-in-use, the estimated future cash flows are 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.

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

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see note 2.23). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on the straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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 on trade receivables. The amount of expected credit losses is updated at each reporting date.

The Group makes use of a simplified approach as a practical expedient to the determination of expected credit losses on trade receivables. The group applies the AASB 9 simplified approach to measure expected credit losses, which uses a lifetime expected credit loss 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 is 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 comprise cash balances which are encumbered and the Group does therefore not have unrestricted access to these funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

2. Accounting policies CONTINUED

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 Expected Credit Losses (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).

Expected credit loss 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 and
- 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

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

- Other financial assets

Classification

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

2. Accounting policies CONTINUED

2.19. Provisions CONTINUED

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 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 32.

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.

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 or
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

2. Accounting policies CONTINUED

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 118: Revenue

Revenue from the sale of coal prior to the adoption of AASB 15 was recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- The amount of revenue can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the Group
- The costs incurred or to be incurred in respect of the transaction can be measured reliably

Specifically, revenue from the sale of coal was recognised when goods were delivered and legal title passed.

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 9 *Financial Instruments* which address the classification, measurement and derecognition of financial assets and financial liabilities, introduce new rules for hedge accounting and a new impairment model for financial assets
- AASB 15 *Revenue from Contracts with Customers* which is based on the principle that revenue is recognised when control of a good or service transfers to a customer

AASB 9 – Financial instruments

The Group has adopted AASB 9, 'Financial instruments', on 1 July 2018. AASB 9 replaces AASB 139 Financial Instruments and introduces new requirements for:

- The classification and measurement of financial assets and financial liabilities
- Impairment for financial assets; and
- General hedge accounting (which is not currently applicable to the Group).

The classification categories previously defined under AASB 139 were replaced in AASB 9 with the categories 'amortised cost', 'fair value through profit or loss' and 'fair value through OCI'.

Financial assets previously held as 'loans and receivables' were transferred to financial assets 'at amortised cost', effective from 1 July 2018. The transfer in financial asset categories did not have a material impact on the measurement of the financial assets.

On transition, the new expected credit loss impairment model on financial assets did not result in a material change to impairment provisions and therefore opening retained earnings was not adjusted.

The Company has applied AASB 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

The reclassification of financial assets and liabilities are summarised in the table below:

Financial instrument	Classification in terms of AASB 139	Classification in terms of AASB 9
Trade and other receivables	Loans and receivables	Amortised cost
Cash and cash equivalents	Loans and receivables	Amortised cost
Loan receivable	Loans and receivables	Amortised cost
Other financial assets	Fair value through profit or loss	Fair value through profit or loss
Borrowings	Amortised cost	Amortised cost
Finance lease liabilities	Amortised cost	Amortised cost
Trade and other payables	Amortised cost	Amortised cost

AASB 15 – Revenue from contracts with customers

The Group has adopted AASB 15 on 1 July 2018, which replaces "AASB 118 Revenue". The new standard is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue.

The Group used the following practical expedient as permitted by AASB 15:

- For completed contracts that began and ended in the same annual reporting period, no restatement has been done

Previously, under AASB 118, all revenue was recognised at a point in time, at the date that risks and rewards transferred.

Under AASB 15, revenue is recognised at the point in time when control passes, which was determined to be in line with previous recognition under AASB 1188 for the Group, and therefore had no impact on opening balances upon adoption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

2. Accounting policies CONTINUED

2.26. Adoption of new and revised Accounting standards and interpretations CONTINUED

At the date of the authorisation of this Financial report, the following standards and interpretations were in issue but not yet effective. The Group has assessed those that are relevant to its operations as follows:

Title of standard	Nature of change	Impact	Mandatory application date/ date of adoption by Group
AASB 16 Leases	AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed for lessees. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The exceptions are short-term and low-value leases.	The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the present value of the Group's future operating lease commitments amounted to \$580 thousand. Some of these operating leases are covered by the exception for short-term and low-value leases. The impact of adopting AASB 16 on 1 July 2019 will therefore not be material to the Group.	Mandatory for financial years commencing on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

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 (DCFs) 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. GSP, 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 ton)	\$138 ¹
Thermal coal price (real US\$ per ton)	\$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 ton)	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 a HCC price range of between \$124 per ton and \$160 per ton, with a base case of \$138 per ton

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 ton and \$81 per ton, with a base case of \$74 per ton

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 ton *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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

3. Critical accounting estimates and key judgements CONTINUED

3.2. Coal reserves CONTINUED

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 and
- 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 LoM (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. Refer to note 23 for further details.

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 2019, 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 2019, the only project included within this reportable segment is the Vele Colliery, which is 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.

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.

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 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)

For the year ended 30 June 2018

	Exploration	Development	Mining	Total
Revenue	–	–	32,693	32,693
Cost of sales	–	–	(27,340)	(27,340)
Gross profit	–	–	5,353	5,353
Other income	11	102	988	1,101
Other operating (losses)/gains	–	–	25	25
Impairment expense	–	(87,475)	–	(87,475)
Administrative expenses	(1,129)	(985)	(1,275)	(3,389)
Operating (loss)/profit	(1,118)	(88,358)	5,091	(84,385)
Interest income	21	–	173	194
Finance costs	(2,578)	(464)	(75)	(3,117)
(Loss)/profit before tax	(3,675)	(88,822)	5,189	(87,308)
Income tax charge	(461)	(5,816)	(1,744)	(8,021)
Segment net (loss)/profit after tax	(4,136)	(94,638)	3,445	(95,329)
Segment assets	122,175	28,180	30,821	181,176
Items included in the Group's measure of segment assets				
Addition to non-current assets	3,801	4	1,881	5,686
Segment liabilities	(14,166)	(4,464)	(9,272)	(27,902)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

4. Segment information CONTINUED

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

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Total loss for reportable segments	(29,377)	(95,329)
Reconciling items:		
Other operating income	1,380	309
Other operating gains/(losses)	1,331	(1,216)
Administrative expenses	(7,593)	(9,315)
Impairment	(41)	–
Interest income	856	1,006
Finance costs	(11)	(519)
Income tax (charge)/credit	(271)	1,301
Net loss for the year from continuing operations	(33,726)	(103,763)
Profit for the year from operations classified as held for sale	–	2,185
Loss for the year	(33,726)	(101,578)
Total segment assets	158,561	181,176
Reconciling items:		
Unallocated property, plant and equipment	2,178	2,688
Other financial assets	4,403	3,574
Other receivables	–	7,645
Unallocated current assets	8,666	8,358
Total assets	173,808	203,441
Total segment liabilities	(39,013)	(27,902)
Reconciling items:		
Deferred consideration	(1,108)	(2,016)
Unallocated liabilities	(1,546)	(2,789)
Total liabilities	(41,667)	32,707

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 2019 \$'000	Year ended 30 June 2018 \$'000
Revenue by location of operations		
South Africa	26,403	32,693
Australia	–	–
Total revenue	26,403	32,693
Non-current assets by location of operations		
South Africa	184,034	182,954
Australia	–	–
Total non-current assets	184,034	182,954

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. Prior year sales included \$3,426 thousand to foreign customers.

Adoption of AASB 15 Revenue from Contracts with Customers (this standard replaces AASB 118, *Revenue*).

In accordance with the transition provisions in AASB 15, the new rules were applied to open, unfulfilled customer contracts on 1 July 2018 and, as the effect of the adoption was immaterial, no adjustment to opening retained earnings has been effected. The Group's accounting policy has been revised to align with AASB 15, but had no material impact on revenue recognition. Additional disclosures have been introduced, particularly on geography.

The Group derives revenue from contracts with customers for the supply of goods (namely coal). The Group recognises revenue on inventory sold to a customer on delivery to the contractually agreed upon delivery point. This is the point at which the performance obligation is satisfied and the receivable is recognised as the consideration is unconditional and only the passage of time is required before payment is due. No element of financing is present due to the short-term nature of Group contracts and credit terms are consistent with market practice. The total sales consideration is in the sales contract.

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Revenue from contracts with customers		
Sale of coal	25,207	32,693
Transport and other	1,196	–
	26,403	32,693
Disaggregation of revenue by location of customers		
South Africa	26,403	29,267
Other	–	3,426
	26,403	32,693

6. Cost of sales

Cost of sales consists of:

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Employee costs	(8,304)	(3,232)
Depreciation and amortisation	(2,101)	(1,240)
Inventory	(262)	(3,433)
Mining contractor	(1,469)	(12,912)
Underground mining	(4,731)	–
Utilities	(681)	(454)
Human resources	(1,063)	(756)
Training	(102)	(53)
Wash plant	(386)	(418)
Administration	(1,744)	(349)
Environmental	(65)	(60)
Logistics	(829)	(1,109)
Engineering	(3,074)	(2,602)
Safety	(128)	(105)
Security	(243)	(226)
Royalties	(207)	(391)
	(25,389)	(27,340)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

7. Other operating income

Other operating income includes:

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Profit on sale of Opgoedenhooop Mining Right	1,174	–
Rental income	185	212
Scrap sales	23	102
Transport income	–	728
Diesel recoupment	–	239
Other	224	129
	1,606	1,410

8. Other operating gains/(losses)

Other operating gains/(losses) include:

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Foreign exchange gain/(loss)		
Unrealised	244	(2,211)
Realised	78	699
Fair value adjustments	839	–
Loss on sale of Tshipise	(311)	–
Other	119	320
	969	(1,192)

9. Net impairment expense

The net impairment expense includes:

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Exploration and Evaluation Assets ¹	(23,309)	–
Development Assets ²	1,277	(87,475)
Property, Plant and Equipment ³	116	–
	(21,916)	(87,475)

¹ In terms of AASB 6 – Exploration and evaluation assets, management identified that indicators existed that the Makhado Project asset may be impaired and performed a formal impairment assessment at 30 June 2019. Refer to note 15 for details of the impairment. As a result an impairment of \$23,268 thousand was recognised. In addition, exploration costs amounting to \$41 thousand incurred in Tshikunda Mining (Pty) Limited were impaired as a result of a sale agreement entered into for the sale of the company

² During the period a sale agreement was entered into for land that was impaired as part of the Vele impairment in the prior period. 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, the Group made the decision to prioritise the Makhado Project and consequently to delay the redevelopment of the Vele Colliery to better align with the timing of the Musina-Makhado SEZ in Limpopo. This resulted in the forecast production date for the Vele Colliery being delayed, with production expected to commence in July 2021. In terms of AASB 136 – Impairment of Assets, management identified this as an indicator that the Vele assets may be impaired and performed a formal impairment assessment at 31 December 2017. Refer to note 16 for details of the impairment

³ During the 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

10. Administrative expenses

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Employee expense	(4,904)	(5,979)
IFRS2 BEE expense ¹	–	(884)
Depreciation	(217)	(264)
Professional fees	(250)	(542)
Transaction costs	–	(608)
Legal expenses	(714)	(534)
Impairment of Mooiplaats receivable	(1,144)	
Other overheads	(3,327)	(3,893)
	(10,556)	(12,704)

¹ The BEE expense relates to the 21% shareholding that Pan African Resources Coal Holdings (Pty) Limited (the majority shareholder in Uitkomst Colliery) sold to the BEE parties on 1 January 2018, in order to comply with BEE legislation pertaining to the mining industry and ensure a social licence to operate

Included in administrative expenses is auditors' remuneration as follows:

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Remuneration for audit and review of the Financial report:		
PWC – Australia (prior period Deloitte Australia)	(89)	(115)
PWC – South Africa (prior period Deloitte South Africa)	(223)	(289)
	(312)	(404)
Non-audit related services performed:		
PWC – Australia (prior period Deloitte Australia)	(6)	(7)
PWC – South Africa (prior period Deloitte South Africa)	–	(4)
	(6)	(11)

11. Finance costs

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Interest on borrowings	(2,981)	(2,932)
Unwinding of discount	(482)	(559)
Other	(2,224)	(145)
	(5,687)	(3,636)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

12. Income tax

Income tax recognised in profit or loss from continuing operations

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Current tax		
Tax expense in respect of the current year	–	(1,565)
Tax expense in respect of the prior year	(291)	878
Deferred tax (note 26)		
Deferred tax asset derecognised	–	(5,816)
Current year deferred tax	18	(213)
Prior year deferred tax	71	–
Withholding taxes	(2)	(4)
Total income tax (expense)/credit recognised	(204)	(6,720)

The Group's effective tax rate for the year from continuing operations was 0.6% (2018: (6.9%)). The tax rate used for the 2019 and 2018 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 2019 \$'000	Year ended 30 June 2018 \$'000
Loss from continuing operations before income tax	(33,522)	(97,043)
Income tax benefit calculated at 30% (2018: 30%)	10,057	29,114
Tax effects of:		
Expenses that are not deductible for tax purposes	(9,666)	(26,846)
Differences in tax rates	(76)	(53)
Income not taxable	922	380
Other temporary differences not recognised	(1,313)	(4,080)
Other	92	(297)
Prior year adjustments	(220)	878
De-recognition of deferred tax asset – losses	–	(5,816)
Income tax (expense)/credit	(204)	(6,720)

Income tax recognised in profit or loss from discontinued operations

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Current tax		
Tax expense in respect of the current year	–	–
	–	–
Deferred tax		
Recognition of deferred tax asset – losses	–	–
Income tax credit	–	–

The Group's effective tax rate for the year from discontinued operations was (0%) (2018: 0%). The tax rate used for the 2018 reconciliation below is the corporate tax rate of 30% payable by Australian corporate entities.

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Profit/(loss) before income tax from discontinued operations	–	2,185
Income tax benefit calculated at 30% (2018: 30%)	–	(656)
Tax effects of:		
Expenses that are not deductible for tax purposes	–	(144)
Differences in tax rates	–	(10)
Income not taxable	–	936
Other temporary differences not recognised	–	(126)
Income tax credit	–	–

13. Discontinuing operations

13.1 Disposal of Langcarel (Pty) Limited (Mooiplaats)

During the prior period, the Company as well as its BEE partner Ferret, entered into a sale of shares and claims agreement (the Agreement) with Mooiplaats Coal Holdings and Mooiplaats Mining. In terms of the Agreement, MC Mining and Ferret disposed of 100% of their shares in Mooiplaats Mining and the Group disposed of its respective claims against Mooiplaats Mining and its wholly-owned subsidiary Langcarel (Pty) Limited (the Transaction), the owner of the Mooiplaats Colliery. The sale was finalised on 2 November 2017 for an aggregate purchase price of \$13,100 thousand (R179,900 thousand). The purchase price was to be settled as follows:

- An initial tranche of \$4,900 thousand (R67,000 thousand) on the effective date of sale (\$3,800 thousand (R52,000 thousand) to the Group and \$1,100 thousand (R15,000 thousand) to Ferret for full and final settlement of their equity)
- The balance of \$8,200 thousand (R112,900 thousand) to be settled in not more than 10 quarterly instalments, with the first Deferred Payment expected to be due by the end of August 2018, to coincide with the timing of the incorporation of Portions 2, 3 and the remaining extent of the farm Klipbank 295 IT into the MR

The Deferred Payments of \$8,200 thousand (R112,900 thousand) was present valued to an amount of \$6,638 thousand at 2 November 2017, to account for the time value of money.

The profit for the period until the sale of Mooiplaats is analysed as follows:

	Period ended 2 November 2017 \$'000
Other gains	3,126
Expenses	(941)
Profit before tax	2,185
Profit for the year from operations held for sale (attributable to owners of the Company)	2,185
Included in other gains is the reversal of prior year asset impairments of \$3,121 thousand	
Net cash outflows from operating activities	(483)
Net cash inflows from investing activities	1,451
Net cash inflows from financing activities	513
Net cash inflows	1,481

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

13. Discontinuing operations CONTINUED

13.1 Disposal of Langcarel (Pty) Limited (Mooiplaats) CONTINUED

	Period ended 2 November 2017 \$'000
The major classes of assets and liabilities of Mooiplaats at the effective date of sale were as follows:	
Assets classified as held for sale	
Property, plant and equipment	8,332
Other financial assets	–
Inventories	1
Trade and other receivables	234
Cash and cash equivalents	1,403
	9,970
Liabilities classified as held for sale	
Provisions	(2,744)
Trade payables and accrued expenses	(30)
	(2,774)
Net assets classified as held for sale	7,196
Impairment reversal	3,160
Net assets of Mooiplaats	10,356

Consideration received or receivable:

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Cash	–	3,718
Receivable	–	6,638
Total disposal consideration	–	10,356
Carrying value of net assets sold	–	(10,356)
	–	–
Opening balance/present value of loan receivable at 2 November 2017	7,236	6,638
Unwinding of interest	596	505
Written off	(1,144)	–
Receipts	(6,457)	–
Foreign exchange difference	(231)	93
Balance at end of year	–	7,236
Current	–	(3,290)
Long term	–	3,946

During the period, an agreement was entered into with Mooiplaats Coal Holdings and an additional party, Last Mile Fund (Pty) Limited, for full and final settlement of \$4,068 thousand (R57,676 thousand) for the balance outstanding. The final settlement was discounted, resulting in a portion of the receivable being written off.

13.2. Analysis of profit for the year from discontinuing operations

The combined results of the operations held for sale included in the loss for the prior year are set out below:

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Profit for the year from discontinuing operations		
Reversal of impairment	–	3,120
Other gains	–	6
	–	3,126
Expenses	–	(941)
Profit before tax	–	2,185
Profit for the year from operations held for sale (attributable to owners of the Company)	–	2,185

14. Loss per share attributable to owners of the Company

14.1. Basic loss per share

	Year ended 30 June 2019 Cents per share	Year ended 30 June 2018 Cents per share
From continuing operations	(23.72)	(73.54)
From discontinuing operations	–	1.55
	(23.72)	(71.99)
Loss for the year attributable to owners of the Company	(33,421)	(101,413)
Less: Profit for the year from operations held for sale	–	(2,185)
Loss used in the calculation of basic loss per share from continuing operations	(33,421)	(103,598)

Weighted number of ordinary shares

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

14.1. 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 2019, 2,408,752 warrants (2018: 1,250,000 options and 2,408,752 warrants), were excluded from the computation of the loss per share as their impact is anti-dilutive.

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

The calculation of headline loss per share at 30 June 2019 was based on the headline loss attributable to ordinary equity holders of the Company of \$9,669 thousand (2018: \$17,068 thousand) and a weighted average number of ordinary shares outstanding during the period ended 30 June 2019 of 140,879,585 (2018: 140,879,585).

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

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Loss for the period attributable to ordinary shareholders	(33,421)	(101,413)
Adjust for:		
Impairment expense	23,404	87,475
Impairment reversal	(1,525)	(3,120)
Profit on disposal of property, plant and equipment	(887)	(10)
Headline earnings	(12,429)	(17,068)
Headline loss per share (cents per share)	(8.82)	(12.12)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

15. Exploration and evaluation assets

A reconciliation of exploration and evaluation assets is presented below:

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Exploration and evaluation assets		
Balance at beginning of year	116,889	118,652
Additions	5,819	3,801
Movement in rehabilitation asset	19	(79)
Disposals	(570)	–
Impairment	(23,309)	–
Foreign exchange differences	(3,977)	(5,485)
Balance at end of year	94,871	116,889

As of 30 June 2019, the net book value of the following project assets were classified as exploration and evaluation assets:

- GSP: \$60,368 thousand
- Makhado Project: \$34,188 thousand
- Uitkomst North adit: \$315 thousand
- Other: \$42 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 have 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 have concluded that indicators of impairment for its exploration and evaluation assets exist as at 30 June 2019 and therefore, recognised an impairment charge of \$23,268 thousand relating to the Makhado Project.

The discount between the Group's market capitalisation and net asset value at 30 June 2019, 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

	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

16. Development

A reconciliation of development expenditure is presented below:

Development assets

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Balance at beginning of year	28,033	114,170
Additions	5	4
Disposals	(1,880)	–
Movement in rehabilitation asset	802	(2,323)
Reversal of impairment ¹	1,277	–
Impairment expense	–	(87,475)
Transfer to assets classified as held for sale	(607)	–
Foreign exchange differences	(711)	3,657
Balance at end of year	26,919	28,033

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

Impairment testing

As of 30 June 2019 the net book value of the following project assets were included in Development Assets:

- Vele Colliery: \$26,919 thousand

The discount between the Group's market capitalisation and net asset value at 30 June 2019, 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 2019 following the impairment assessment.

Impairment recognised in 2018

In the prior year, the Group made the decision to prioritise the Makhado Project and consequently to delay the redevelopment of the Vele Colliery to better align with the timing of the Musina-Makhado SEZ in Limpopo. This resulted in the forecast production date for the Vele Colliery being delayed with production expected to commence in July 2021. In terms of *AASB 136 – Impairment of Assets*, management identified this as an indicator that the Vele assets may be impaired and management performed a formal impairment assessment.

The recoverable value of the project was calculated using the fair value less costs of disposal approach to estimate the recoverable amount of the project, before comparing this amount with the carrying value of the associated assets and liabilities in order to assess whether an impairment of the carrying value was required under AASB 136. Due to the recoverable value being less than the carrying value, an impairment charge of \$87,475 thousand was recognised during the year ended 30 June 2018.

In calculating the fair value less costs of disposal, management forecasted the cash flows associated with the project over its expected life of 15 years until 2037 based on the current LoM model. The cash flows are estimated for the assets of the Colliery in its current condition together with capital expenditure required for the Colliery to resume operations, discounted to its present value using a post-tax discount rate that reflects the current market assessments of the risks specific to the Vele Colliery. The identification of impairment indicators and the estimation of future cash flows required management to make significant estimates and judgements. Details of the key assumptions used in the prior year fair value less costs of disposal calculation have been included overleaf

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

16. Development CONTINUED

Key assumptions

	2018	2019	2020	2021	LT
Thermal coal price (USD, nominal) ¹	80	75	69	69	70 ²
Hard coking coal price (USD, nominal) ³	153	135	129	125	129 ⁴
Exchange rate (USD/R, nominal)	12.7	12.5	13.2	14.3	15.0 ⁵
Discount rate ⁶					16.75%
Inflation rates – USD					2.1%
– R					5.1%
Production start date ⁷					FY2022

¹ Management's assumptions reflected the Richards Bay export thermal coal (API4) price

² Long-term thermal coal price equivalent to USD65 per tonne in 2017 dollars

³ Management's assumption of the hard coking coal price was made after considering relevant broker forecasts

⁴ Long-term hard coking coal price equivalent to USD120 per tonne in 2017 dollars

⁵ From 2022, the exchange rate was derived with reference to the 2021 assumption, and inflated by the compounding differential between USD and R inflation rates. The comparative discount rate applied at 30 June 2017 was 16.1%

⁶ Management prepared a nominal R-denominated, post-tax discount rate, which was calculated with reference to the Capital Asset Pricing Model (CAPM)

⁷ The production start date assumed that sufficient project finance was able to be raised by management in order to commence production in July 2021.

Impairment assessment

	USD thousand
Carrying value of Vele cash generating unit	117,800
Recoverable value	30,325
Impairment expense (allocated to development assets)	(87,475)

Sensitivity analysis

Sensitivity	Change in variable %	Effect on fair value less costs of disposal
Long term coal prices	+10.0	21
	-10.0	(24)
Long term exchange rate	+10.0	25
	-10.0	(29)
Discount rate	+1.0	(2)
	-1.0	2
Operating costs	+10.0	(14)
	-10.0	14
Delays in production start date	+12 months	(4)

17. 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 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

	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 2018							
Cost							
At beginning of year	1,996	20,243	8,783	438	1,048	2,037	34,545
Additions	296	–	2,566	–	–	25	2,887
Disposals	(23)	–	–	(318)	(22)	(23)	(386)
Rehabilitation asset	207	–	–	–	–	–	207
Exchange differences	(128)	(975)	(1,691)	–	(79)	(112)	(2,985)
At end of year	2,348	19,268	9,658	120	947	1,927	34,268
Accumulated depreciation							
At beginning of year	34	–	1,184	438	610	1,748	4,014
Depreciation charge	149	974	197	–	63	121	1,504
Accumulated depreciation on disposals	(9)	–	–	(318)	(22)	(22)	(371)
Exchange differences	(11)	(64)	(70)	–	(96)	(90)	(331)
At end of year	163	910	1,311	120	555	1,757	4,816
Net carrying value at end of fiscal year 2018	2,185	18,358	8,347	–	392	170	29,452

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

17. Property, plant and equipment CONTINUED

As of 30 June 2019 the net book value of the following operating assets were included in property, plant and equipment:

- Uitkomst Colliery: \$26,419 thousand

The discount between the Group's market capitalisation and net asset value at 30 June 2019, 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 impairment charge was required for the Uitkomst Colliery at 30 June 2019.

18. Other receivables

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Carrying amount of:		
Other loans	219	226
Balance at beginning of year	226	237
Foreign exchange differences	(7)	(11)
Balance at end of year	219	226

19. Other financial assets

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

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Listed securities		
– Equity securities	23	4
Unlisted securities		
– Equity securities in investment funds ¹	4,592	3,901
	4,615	3,905
Deposits ²	414	423
	5,029	4,328

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

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Balance at beginning of year	4,328	9,176
Revaluations	157	297
Interest received	81	–
Disposal of investment	(121)	(5,712)
Acquisition of investments	689	791
Foreign exchange differences	(105)	(224)
Balance at end of year	5,029	4,328

20. Inventories

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Finished goods	360	249
Consumable stores	470	212
Other	235	278
Provision for obsolete inventory	(23)	(9)
	1,042	730

The cost of inventories recognised as an expense during the year in respect of continuing operations was \$262 thousand (2018: \$3,433 thousand).

21. Trade and other receivables

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Trade receivables	2,444	4,189
Other receivables	552	1,307
	2,996	5,496

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 (2018: 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.

The estimation techniques explained have been applied for the first time in the current financial period, as a result of the adoption of AASB 9. Trade receivables were previously impaired only when there was objective evidence that the asset was impaired. The impairment was calculated as the difference between the carrying amount and the present value of the expected future cash flows. No provision for impairment of trade debtors was recognised at the end of the previous financial year. Upon adoption of AASB 9 at the start of the current financial year a reassessment of ECLs was performed on trade receivables and no material loss allowance was required.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

22. Cash and cash equivalents

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Bank balances	8,811	10,931
	8,811	10,931
Restricted cash	68	84
	68	84

The restricted cash balance of \$0.1 million (2018: \$0.1 million) is held on behalf of subsidiary companies mainly in respect of the rehabilitation guarantees issued to the DMR in respect of environmental rehabilitation costs of \$6.3 million (2017: \$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.

23. Deferred consideration

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Deferred consideration	4,071	2,017
Balance at beginning of year	2,017	1,916
Deferred consideration on Khethekile acquisition	629	–
Deferred consideration on the acquisition of Lukin and Salaita	2,527	–
Repaid during the year – Khethekile	(239)	–
Interest accrued	162	374
Deferred finance charges	(33)	–
Fair value adjustment	(839)	–
Foreign exchange	(153)	(273)
Balance at end of year	4,071	2,017
Current	1,406	2,017
Non-current	2,665	–
	4,071	2,017

The opening balance deferred consideration relates to a deferred amount of \$2,017 thousand, inclusive of interest for the acquisition of PAR Coal from Pan African on 30 June 2017. The amount bears interest at the South African prime rate and is due on 1 July 2019. The Company was entitled to prepay any amounts in respect of the deferred consideration at any time until 30 June 2019. To the extent that certain coal buy-in opportunities were not secured by or with the assistance of Pan African, within two years from the effective date, which could result in MC Mining suffering a lower economic benefit, the deferred consideration could be reduced by such value, subject to a maximum of \$1,300 thousand (R15 million). During the period, it was assessed that these buy-in opportunities had not materialised and a fair value adjustment was recognised and no further interest was accrued. The amount outstanding was paid on 1 July 2019.

Khethekile acquisition deferred consideration

During the period, as part of the acquisition of Khethekile (refer note 34), the transaction included a deferred consideration of \$629 thousand (R8,281 thousand) of the acquisition price. This amount is payable in monthly instalments of \$25 thousand (R350 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

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 \$4,971 thousand (R70,000 thousand). \$2,485 thousand (R35,000 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 Ministry 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 10%) less 3.0%.

24. Borrowings

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Industrial Development Corporation of South Africa Limited	12,782	10,191
Pan African Resources Management Services (Pty) Limited	1,363	
Environmental and Process Technologies (Pty) Limited	154	
	14,299	10,191
Balance at beginning of year	10,191	8,197
PARMS loan acquired	1,550	–
Enprotec loan	579	–
Repayment – PARMS	(231)	–
Repayment Enprotec	(461)	–
Interest accrued	2,981	2,439
Deferred finance charges	(1)	
Foreign exchange	(309)	(445)
Balance at end of year	14,299	10,191

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 \$17,042 thousand (R240,000 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 \$8,521 thousand (R120,000 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 30% premium to the 30 day volume weighted average price of the MCM shares as traded on the JSE as at 5 December 2016 (R12 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

24. Borrowings CONTINUED

Industrial Development Corporation of South Africa Limited CONTINUED

If the second tranche of \$8,521 thousand (R120,000 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 (R60,000 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 (R1)
- A penalty fee of \$852 thousand (R12,000 thousand) shall be paid to the IDC by Baobab

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

Pan African Resources Management Services (Pty) Limited (PARMS)

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 (R20,539 thousand) from PARMS. The loan bears interest at the South African prime rate and is compounded monthly. It is repayable in 48 monthly instalments of approximately \$39 thousand (R543 thousand) per month.

Environmental and Process Technologies (Pty) Limited (Enprotec)

During the 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 \$619 thousand (R8,717 thousand). This was to facilitate the production of an additional high ash, coarse discard product. The purchase price is payable over 12 instalments of \$52 thousand (R726 thousand). This obligation has been accounted for using an effective interest rate of 11%.

25. Provisions

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Employee provisions	350	378
Biodiversity offset provision	2,219	2,146
Rehabilitation provisions	4,531	3,503
	7,100	6,027

Employee provisions

The provision for employees represents unused annual leave entitlements.

Biodiversity offset provision

The BOA was signed by the DEA, South African National Parks Board and the Company to the value of \$3.905 thousand (R55,000 thousand) over a 25 year period. The BOA commits the Company to pay \$3.905 thousand (R55,000 thousand) to the South African National Parks Board over a period of 25 years. The following payment arrangement has been agreed:

Phase 1 – R2,000 thousand paid in 2015

Phase 2 – R15,000 thousand from year 2016 to 2021 (R2.500 thousand annually)¹

Phase 3 – R13,000 thousand from year 2022 to 2028 (R1.800 thousand annually)¹

Phase 4 – R13,000 thousand from 2029 to 2033 (R2.600 thousand annually)¹

Phase 5 – R12,000 thousand from 2034 to 2038 (R2.400 thousand annually)¹

¹ 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 2019 \$'000	Year ended 30 June 2018 \$'000
Balance at beginning of year	3,503	5,558
Unwinding of discount	355	427
Change in assumptions on rehabilitation provisions	754	(2,337)
Foreign exchange	(81)	(145)
Balance at end of year	4,531	3,503

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 DMR, 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 South African inflation rate of 4.5% annually and the discount rate applied to establish the current obligation is a South Africa government bond rate at 30 June 2019 of 8.09% (2018: 9.25%) annually.

Due to the changes in assumptions, the Vele Colliery and the Makhado Project had an increase in the present value of the environmental obligation while 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 2019 \$'000	Year ended 30 June 2018 \$'000
Current	536	569
Non-current	6,564	5,458
	7,100	6,027

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

26. Deferred tax

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Deferred tax liability	5,750	5,991
The gross movement on the deferred tax account is as follows:		
Balance at beginning of year	5,991	374
Provisions	6	(104)
Capital allowances	(25)	225
Prepayments	(11)	–
Prior year adjustment	(71)	92
Deferred tax asset de-recognised ¹	–	5,816
Foreign exchange	(140)	(412)
Balance at end of year	(5,750)	(5,991)
The deferred tax balances at year end are represented by:		
Deferred tax assets		
Provisions	361	371
Prepayments	11	–
Balance at end of year	372	371
Deferred tax liabilities		
Capital allowances on property plant and equipment	(6,122)	(6,362)
Balance at end of year	(6,122)	(6,362)
Net deferred tax (liabilities)/assets	(5,750)	(5,991)

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 Group did not recognise deferred income tax assets of \$52,132 thousand (2018: \$49,080 thousand) in respect of losses amounting to \$51,012 thousand (2018: \$47,580 thousand) and unredeemed capital expenditure of \$133,626 thousand (2018: \$126,937 thousand) that can be carried forward against future taxable income.

¹ The deferred tax asset balance at 30 June 2017 of \$5,713 million, relating to the Vele Colliery, was derecognised in 2018. This decision was made due to the increased risk of recoverability of the deferred tax asset through future taxable earnings. This arises from the later commencement date of the Vele mine due to management's view of development of the SEZ and the prioritisation of the Makhado Project. The charge to profit and loss was \$5,816 thousand because of foreign exchange differences

27. Other liabilities

This liability relates 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.

28. Trade and other payables

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Trade payables	1,777	1,395
Accrued expenses	6,199	4,942
Other	874	508
	8,850	6,845

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

29. Issued capital

During the reporting period, there were no shares issued.

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Fully paid ordinary shares		
140,879,585 (2018: 140,879,585) fully paid ordinary shares	1,040,950	1,040,950
	Number	\$'000
Movements in fully paid ordinary shares		
At 30 June 2018	140,879,585	1,040,950
Shares issued	–	–
At 30 June 2019	140,879,585	1,040,950

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 32.

30. Accumulated deficit

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Accumulated deficit at the beginning of the financial year	(851,535)	(750,100)
Net loss attributed to Owners of the Company	(33,421)	(101,413)
Transferred from share based payment reserve	670	–
Dividend expense	(11)	(22)
Accumulated deficit at the end of the financial year	(884,297)	(851,535)

31. Reserves

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Capital profits reserve	91	91
Share based payment reserve	2,234	2,052
Warrants reserve	1,134	1,134
Foreign currency translation reserve	(28,060)	(22,352)
	(24,601)	(19,075)
Movements for the year can be reconciled as follows:		
Share-based payments reserve		
Opening balance	2,052	713
Share options issued during the year	852	616
Share options cancelled/forfeited/expired	(670)	(161)
IFRS 2 BEE charge		884
Closing balance	2,234	2,052

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

31. Reserves CONTINUED

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Foreign currency translation reserve		
Opening balance	(22,352)	(20,473)
Exchange differences on translating foreign operations	(5,708)	(2,393)
Sale of Mooiplaats Colliery	–	514
Closing balance	(28,060)	(22,352)
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 represent the value of unexercised share options and performance rights to Directors and employees. It also includes IFRS2 BEE 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.

32. 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 2019

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 2019 due to the expiration of those that existed during the financial period ended 30 June 2019:

- The Company finalised an 18-month, R210 million working capital facility from Investec Bank Limited during October 2013 and announced that it would issue 20,000,000 options to Investec. The 20,000,000 shareholder-approved options were issued on 30 January 2015 and have an exercise price of R1.32 and expired on 21 October 2018. Upon conversion, the shares would have ranked equally with existing shares, were not transferable and would have held no voting or dividend rights. Post the share consolidation in the 2018 financial year, Investec held 1,000,000 options
- On 27 November 2015, 1,000,000 options were awarded and vested to five independent Non-executive Directors at a price of GBP0.055 per option. The options expired on 27 November 2018. Upon conversion the shares would have ranked equally with existing shares, would have not been transferable and would have held no voting or dividend rights. Post the share consolidation in the 2018 financial year, the independent Non-executive Directors each held 50,000 options, totalling 250,000 options

Fair value of share options granted during the year

There were no share options granted during the 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 2019 \$'000	Year ended 30 June 2018 \$'000
Options outstanding at beginning of year	1,250,000	1,250,000
Options expired	(1,250,000)	–
Options outstanding at end of year	–	1,250,000
Weighted average exercise price (A\$)	1.40	1.40
Options exercisable	–	1,250,000

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, post the share consolidation, and a weighted average contractual life of 0.32 years.

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 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	R7.5
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	R8.8
Exercise price	Nil
Expiry date	23 November 2020
Performance period	3.00
Risk free interest rate	8.09%

On 30 November 2016, 1,770,470 (post consolidation 35,409,403) Performance Rights were issued to senior management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

32. Share-based payments CONTINUED

Inputs into the model for the prior financial year were as follows:

	Performance Rights
Spot 5 day VWAP	R12.6 (post share consolidation)
Exercise price	Nil
Expiry date	29 November 2019
Performance period	3.00
Risk free interest rate	8.24%

Performance Rights issued on 27 November 2015 expired during the current year on 1 December 2018

The total share based payment expense recognised in relation to the Performance Rights in the current financial year is \$0.9 million (FY2018: \$616 thousand).

Movement in Performance Rights (post consolidation)

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Performance Rights outstanding at beginning of year	3,832,467	2,781,767
Performance Rights expired	(1,027,209)	–
Performance Rights forfeited	–	(1,066,545)
Performance Rights granted	3,465,556	2,117,245
Performance Rights outstanding at end of year	6,270,814	3,832,467

33. Non-controlling interest

Non-controlling interests comprise the following:

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Freewheel Trade and Invest 37 (Pty) Limited	575	575
Baobab non-controlling interest	(486)	(181)
	89	394

34. Business combinations

The underground operations at Uitkomst Colliery were historically undertaken by an independent mining contractor, Khethekile Mining (Pty) Limited (Khethekile). During the 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 (R16,400 thousand) of which \$521 thousand (R6,900 thousand) was payable on closing and the balance, \$717 thousand (R9,500 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.

35. Financial instruments

35.1. 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 2019 \$'000	Year ended 30 June 2018 \$'000
Net debt ¹	9,559	1,277
Equity ²	132,141	170,734
Debt to equity ratio	7%	0.07%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

35. Financial instruments CONTINUED

35.2. Categories of financial instruments

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

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Financial assets		
Other receivables	219	226
Trade and other receivables	2,996	5,496
Cash and cash equivalents	8,811	10,931
Restricted cash	68	84
Loan receivable	–	7,236
Other financial assets	5,029	4,328
Total financial assets	17,123	28,301
Financial liabilities		
Deferred consideration	4,071	2,017
Borrowings	14,298	10,191
Trade and other payables	8,850	6,845
Total financial liabilities	27,219	19,053

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 2019	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	23	4,581	–	4,604
As at 30 June 2018	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	4	3,901	–	3,905

35.3. 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.

35.4. 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 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
	Held in GBP \$'000	Held in AUD \$'000	Held in USD \$'000	Total \$'000
Balances at 30 June 2018				
Financial assets				
Cash and cash equivalents ¹	–	58	2,386	2,444
Total financial assets	–	58	2,386	2,444
¹ Cash includes restricted cash				
Financial liabilities				
Trade and other payables	1	12	–	13
Total financial liabilities	1	12	–	13

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.

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Impact on profit/(loss)		
Judgements on reasonable possible movements		
USD/R increase by 10%	(69)	(243)
USD/R decrease by 10%	69	243

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

35. Financial instruments CONTINUED

35.5. 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.

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Judgements on reasonable possible movements		
Increase of 0.2% in interest rate	8	26
Decrease of 0.2% in interest rate	(8)	(26)
Increase of 1.0% in interest rate	38	130
Decrease of 1.0% in interest rate	(38)	(130)

The impact is calculated on the net financial instruments exposed to variable interest rates as at reporting date and does not take into account any repayments of short-term borrowings.

35.6. Credit risk

Credit risk is the risk that a contracting entity will not complete its obligation under a financial instrument that will result in a financial loss to the Group. The carrying amount of financial assets represents the maximum credit exposure. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to credit losses not being significant.

At year-end, there is no significant concentration of credit risk represented in the cash and cash equivalents, restricted cash and trade accounts receivables balance. The Group manages its credit risk by predominantly dealing with counterparties with a positive credit rating.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

35.7 Liquidity risk

The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet financial commitments in a timely and cost effective manner. The Group's executive continually reviews the liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels.

The concentration of cash balances on hand in geographical areas was as follows:

	United Kingdom \$'000	Australia \$'000	South Africa \$'000	Total \$'000
Balances at 30 June 2019				
Cash and cash equivalents and restricted cash	748	77	8,054	8,879
	748	77	8,054	8,879
Balances at 30 June 2018				
Cash and cash equivalents and restricted cash	2,386	58	8,571	11,015
	2,386	58	8,571	11,015

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

	Less than 6 months	Between 6 – 12 months	Greater than 12 months	Total
Balances at 30 June 2019	\$'000	\$'000	\$'000	\$'000
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	Between 6 – 12 months	Greater than 12 months	Total
Balances at 30 June 2019	\$'000	\$'000	\$'000	\$'000
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%

	Less than 6 months	Between 6 – 12 months	Greater than 12 months	Total
Balances at 30 June 2018	\$'000	\$'000	\$'000	\$'000
Deferred consideration ¹	–	2,228	–	2,228
Borrowings ¹	–	–	14,587	14,587
Trade and other payables	6,845	–	–	6,845
	6,845	2,228	14,587	23,660

	Less than 6 months	Between 6 – 12 months	Greater than 12 months	Total
Balances at 30 June 2018	\$'000	\$'000	\$'000	\$'000
Other receivables	–	–	226	226
Loan receivables	1,645	1,645	4,935	8,225
Trade and other receivables	5,502	–	–	5,502
Cash and cash equivalents	10,931	–	–	10,931
Restricted cash	–	–	84	84
Other financial assets	4	–	5,453	5,457
	18,082	1,645	10,698	30,425

¹ Interest bearing at rates between 10.25 and 22.2%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

36. 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:

	Note	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Cash and bank balances	22	8,811	10,931
Reconciliation of loss before tax to net cash used in operations			
Loss before tax (continuing and discontinuing operations)		(33,522)	(94,858)
Add back:			
Depreciation		2,318	1,504
Net impairment expense		21,916	84,355
Share-based payment		852	1,343
Bad debt written off		1,100	59
Employee incentive		–	1,289
Fair value adjustment		(839)	
Re-valuation of investments		(82)	(294)
Movement in provisions		(31)	(105)
Finance costs (net)		4,639	2,394
Disposal of assets		(904)	(10)
Foreign exchange loss/(gains) on operating activities		(244)	2,211
Changes in working capital:			
Increase in inventories		(401)	938
Decrease in trade and other receivables		1,656	728
Decrease in trade and other payables		(1,735)	2,448
Cash used in operations		(5,277)	2,002

37. 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 41, subsidiary companies have typical financial commitments associated with their MRs granted by the South African DMR.

38. 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 2019 \$'000	Year ended 30 June 2018 \$'000
Short-term employee benefits	1,347	1,308
Post-employment benefits	4	4
Termination benefits	–	178
Share-based payments	328	273
	1,679	1,763

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.

39. Controlled entities

Particulars in relation to controlled entities.

		Year ended 30 June 2019	Year ended 30 June 2018
	Country of incorporation	%	%
Bakstaar Boerdery (Pty) Limited ¹	South Africa	100	100
Baobab Mining & Exploration (Pty) Limited ²	South Africa	95	95
Chapudi Coal (Pty) Limited ³	South Africa	74	74
Coal of Africa & ArcelorMittal Analytical Laboratories (Pty) Limited	South Africa	50	50
Cove Mining NL	Australia	100	100
Freewheel Trade and Invest 37 (Pty) Limited	South Africa	74	74
Fumaria Property Holdings (Pty) Limited	South Africa	100	100
Golden Valley Services (Pty) Limited	Australia	100	100
GVM Metals Administration (South Africa) (Pty) Limited	South Africa	100	100
Harrisia Investments Holdings (Pty) Limited	South Africa	100	100
Kwezi Mining Exploration (Pty) Limited ³	South Africa	74	74
Limpopo Coal Company (Pty) Limited	South Africa	100	100
Makhado Centre of Learning NPC ²	South Africa	95	95
MbeuYahsu (Pty) Limited	South Africa	74	74
Newshelf 1384 (Pty) Limited	South Africa	100	100
Nyambose Mining (Pty) Limited	South Africa	100	100
Pan African Resources Coal Holdings (Pty) Limited	South Africa	100	100
Regulus Investment Holdings (Pty) Limited	South Africa	100	100
Silkwood Trading 14 (Pty) Limited	South Africa	100	100
Tshikunda Mining (Pty) Limited ⁴	South Africa	–	60
Tshipise Energy Investments (Pty) Limited ⁴	South Africa	–	50
Uitkomst Colliery (Pty) Limited	South Africa	100	100

¹ Subsidiary company of Fumaria Property Holdings (Pty) Limited

² 69% on completion of the Makhado Project BBBEE transactions

³ Subsidiary companies of MbeuYashu (Pty) Limited

⁴ Sold during the year

40. Events after the reporting period

IDC debt funding secured

The IDC approved a term loan facility (the Term Loan) to fund the construction of Phase 1 of the Makhado Project.

The salient features of the Term Loan are, subject to documentation:

- The IDC will advance \$17,397 thousand (R245,000 thousand) to MC Mining
- Draw-down can take place any time before 30 June 2021 and the loan will endure for a period of seven years following draw-down
- Coupon of the South African prime interest rate (currently 10%) plus a margin that reflects the significant progress made on Makhado as well as the increased confidence that the IDC has in the execution of the Project
- Capital repayments will only commence 24 months after the first draw-down and will be repaid in 20 equal quarterly instalments

The loan is subject to various conditions precedent including:

- MC Mining issuing additional equity to shareholders for a minimum of \$14,201 thousand (R200,000 thousand); and
- Settlement of the existing 2017 loan facility between the IDC, MC Mining and Baobab, which at 30 June 2019 amounted to \$13,116 thousand (R184,700 thousand), and termination of all agreements in this regard

Sale of land in Harrisia Investments Holdings (Pty) Limited

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 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2019

41. Parent entity financial information

	Parent entity	
	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Summary financial information		
Non-current assets	133,026	171,397
Current assets	886	2,051
Total assets	133,912	173,448
Non-current liabilities	–	2,017
Current liabilities	1,771	697
Total liabilities	1,771	2,714
Net assets	132,141	170,734
Shareholders' equity		
Issued capital	1,040,950	1,040,950
Accumulated deficit and reserves	(908,809)	(870,216)
	132,141	170,734
Profit/(loss) for the year	(23,871)	(110,839)
Total comprehensive loss	(23,871)	(110,839)

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 2019 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 2019
- 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 and 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 financial report, which indicates that the Group incurred a net loss of US\$33,726 thousand during the year ended 30 June 2019 and a net cash outflow from operating activities of US\$5,412 thousand. The Group is dependent on obtaining additional financing or raising additional capital in the next 12 months to enable it to continue its normal business activities, including progression of Phase 1 of the Makhado project and its subsequent ramp-up to planned levels of production. 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 opinion is not modified in respect of this matter.

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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.



Materiality	Audit scope	Key audit matters
- For the purpose of our audit we used overall Group materiality of US\$1,700 thousand, which represents approximately 1% of the Group's total assets. - We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. - We chose the Group's total assets, as in our view, it is the metric which reflects the key focus of users of the financial report. - We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. - Given that the Group's main operations, management and accounting records are located in South Africa, local auditors in South Africa assisted in performing audit procedures.	- Amongst other relevant topics, we communicated the following <i>key audit matters</i> to the Audit and Risk Committee: - Impairment assessment of Exploration and evaluation assets, Development assets and Property, plant and equipment. - These are further described in the <i>Key audit matters</i> section of our report, except for the matter which is described in the <i>material uncertainty related to going concern</i> section.

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. The 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.



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 matters 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 note 3.1, 15, 16 and 17) At 30 June 2019, the Group held Exploration and evaluation assets of US\$94,871 thousand, Development assets of US\$26,919 thousand and Property, plant and equipment assets of \$32,713 thousand. The Group considered whether there were any indicators of impairment for any individual assets or cash generating units (CGU's). Indicators of possible impairment were identified by the Group for all CGUs due to the carrying amount of the Group's net asset value being higher than its market capitalisation and commodity prices having declined. Australian Accounting Standards require the carrying value of assets tested for impairment to be compared to their recoverable amount. The Group estimated the recoverable amount for all CGUs based on 'fair value less costs of disposal' assessments. The recoverable amount was determined from a combination of discounted cash flow models and valuation of mineral resources based on recent comparable market transactions. As described in note 15, the Group has recognised impairment charges in relation to the Makhado Project of US\$23,268 thousand during the year ended 30 June 2019. This was a key audit matter because of the significant judgement required by the Group in estimating the recoverable amounts of the CGUs, and the financial significance of the impairment charge.	We performed the following procedures amongst others: ■ Evaluated the Group's assessment of whether there were indicators of asset impairment by comparing the Group's net asset value with its market capitalisation and considering trends in thermal and hard coking coal prices. This led us to focus on all CGU's, given the pervasive nature of these indicators. ■ Assessed whether the division of the Group's Exploration and evaluation assets, Development assets and Property, plant and equipment assets into CGUs, which are the smallest identifiable groups of assets that can generate largely independent cash inflows, was consistent with our knowledge of the Group's operations and internal Group reporting. ■ Assessed whether the CGUs included assets, liabilities and cash flows directly attributable to each CGU and a reasonable allocation of corporate assets and overheads. ■ Obtained the Group's 'fair value less cost of disposal' assessments for all CGU's and considered if the impairment models were consistent with the requirements of Australian Accounting Standards. ■ Tested the mathematical accuracy of the discounted cash flow models used by the Group. ■ Compared key market related assumptions used in the discounted cash flow models, including thermal and hard coking coal prices as well as forecast South African Rand versus United States Dollar exchange rates to a range of observable external forecasts developed by market analysts. ■ Evaluated the discount rates used in the discounted cash flow models by calculating a range of weighted average cost of capital discount rates using 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. ■ Considered whether the Group's assumptions related to production volumes and operating cash outflows used in the discounted cash flow models were consistent with the Group's mine plans and operating budgets, as well as actual performance outcomes achieved to date (where applicable). ■ Considered recent comparable transactions in the South African coal industry supporting the resource multiple values used to evaluate the recoverable amount. ■ Considered the Group's sensitivity analysis on the key assumptions used in the discounted cash flow models to assess under which assumptions an impairment would occur and whether this was reasonably possible. ■ Evaluated the adequacy of the disclosures made in note 3.1, including those regarding the key assumptions and sensitivities to changes in such assumptions in light of the requirement of Australian Accounting Standards.

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 2019, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' report. We expect the remaining other information to be made available to us after the date of this auditor's report.



Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or 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.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

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: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the remuneration report included in pages 56 to 61 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of MC Mining Limited for the year ended 30 June 2019 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 2019