



ANNOUNCEMENT

14 March 2019

HALF-YEAR RESULTS FOR THE PERIOD ENDING 31 DECEMBER 2018

MC Mining Limited ("MC Mining" or the "Company") is pleased to provide its reviewed interim financial report for the six months ended 31 December 2018 (the "Period"). All figures are denominated in United States dollars unless otherwise stated and the full report is available on the Company's website, www.mcmining.co.za.

Shareholders are also referred to the announcement released today by the Company on the approval of Phase 1 of the Makhado hard coking and thermal coal project ("Makhado Project" or "Makhado").

Highlights

Operational salient features

- One lost-time injury ("LTI") recorded during the Period (FY2018 H1: nil) at the Uitkomst thermal and metallurgical colliery ("Uitkomst" or "Uitkomst Colliery");
- Uitkomst transitioned to an owner operated colliery with the acquisition of the operations belonging to independent underground mining contractor, Khethekile Mining (Pty) Ltd ("Khethekile");
- Uitkomst Run of mine ("ROM") coal production decreased to 237,715 tonnes ("t") (FY2018 H1: 265,609t) as a result of reduced asset availability and work force integration issues following the acquisition of Khethekile;
- The expiry of third party ROM coal supply contracts in FY2018 resulted in limited quantities of coal purchases (FY2019 H1: 12,466t; FY2018 H1: 80,727t);
- Uitkomst sold 163,487t (FY2018 H1: 308,275t) of coal – 157,452t from ROM coal and 6,035t from purchased ROM coal; as previously reported, the lack of available third party ROM coal adversely affected the blending of slurry with third party ROM coal purchases (FY2018 H1 blended slurry sales: 53,690t).
- Favourable coal prices during the Period resulted in the average price achieved per tonne coal sold increasing 61% to \$88.91/t (FY2018 H1: \$55.14/t);

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Chairman Bernard R. Pryor **Chief Executive Officer** David H. Brown **Chief Financial Officer** Brenda Berlin

Non-executive directors Peter G. Cordin, Andrew D. Mifflin, Khomotso B. Mosehla, Thabo F. Mosololi, Shangren Ding, An Chee Sin, Brian He Zhen

- Commencement of plant modifications at Uitkomst to facilitate the production of an additional high ash, coarse discard product with first sales expected in the current quarter;
- Uitkomst generated an EBITDA for the first half of FY2019 of R46.3million (FY2018 H1: R45.2 million);
- Since acquisition in 2017, Uitkomst has delivered a profit before tax of some R96.3 million (\$6.9 million);
- Agreement on the terms and conditions for the acquisition of the Lukin and Salaita properties, two key surface rights required for the Makhado Project;
- Coal Purchase Agreement with Huadong Coal Trading Center Co, Ltd (“HDCTC”) for the offtake of up to 450,000t per annum of Makhado hard coking coal (“HCC”) mined from Lukin and Salaita;
- Heads of Agreement (“HOAs”) signed with China Railway International Group Co., Ltd. (“CRIG”) for the facilitation of a funding package for up to 85% of Makhado Lite’s engineering, procurement and construction (“EPC”) contract value and negotiation of the EPC and mining contracts; and
- The South African Department of Mineral Resources (“DMR”) granted a mining right for 74% owned Chapudi coking and thermal coal project (“Chapudi Project”), one of the three projects comprising the Company’s longer-term Greater Soutpansberg Project (“GSP”).

Corporate and market features

- Completion of the regulatory matters relating to the disposal of the Mooiplaats thermal coal colliery (“Mooiplaats Colliery”) and receipt of the first two quarterly instalments totalling \$1.6 million;
- Extension for a further six months of the R120 million (\$8.3 million) facility from the Industrial Development Corporation of South Africa Limited to MC Mining’s subsidiary, Baobab Mining and Exploration Proprietary Limited (“Baobab”), for the development of Makhado;
- R15 million (\$1.0 million) revolving asset finance facility and a R20 million (\$1.4 million) primary lending facility from ABSA Bank Limited; and
- HCC prices remained above long-term pricing expectations while South African export thermal coal prices were trading above \$95/t at the end of the Period.

Subsequent events

- Satisfaction of the conditions for the acquisition of the Lukin and Salaita, resulting in the transfer of the properties to Baobab in January 2019;
- Receipt in February 2019 of the third Mooiplaats Colliery instalment of \$0.8 million; and
- The Company's directors approved the phased development of the Makhado Project, an approach that reduces capital requirements and shortens the construction period. The approval is conditional on the necessary funding being available which if successful could see construction of Makhado Phase 1 commencing in Q3 CY2019.

Financial review

- The loss for the Period was \$3.6 million or 2.49 cents per share compared to a loss of \$97.3 million, or 69.04 cents per share for the prior corresponding period; and
- Payment of \$3.2 million for the Lukin and Salaita farms, the most significant contributor to MC Mining's cash balance declining from \$10.9 million at 30 June 2018 to \$5.5 million at the end of the Period.

David Brown, CEO commented:

"I am pleased to report on a very positive six months and the achievement of several critical milestones required for our flagship Makhado Project. This resulted in the Company's directors conditionally approving the phased development of the Makhado Project. The phased approach to Makhado reduces initial capital requirements by the modification of existing plant facilities, shortens the construction period and utilises previously tested logistics infrastructure, all contributing to reduced execution risk.

The acquisition of the Lukin and Salaita properties completes the suite of landholdings required for Makhado, removing a major hurdle to the development of the project. We also secured our first offtake for a maximum annual volume of 450,000t of HCC from these properties, reaffirming Makhado's world-class coal qualities and the international appetite for the coal and positions MC Mining as South Africa's pre-eminent producer of high-grade metallurgical coal. Negotiations for the sale of the thermal coal are progressing and we anticipate finalising the agreement in Q2 CY2019, composite debt and equity funding arrangements in Q2/Q3 CY2019 with construction commencing later in Q3 CY2019.

The underground contract mining operations at Uitkomst were acquired during the Period resulting in the integration of systems, equipment and approximately 340 staff. The

integration process has taken longer than anticipated and was accompanied by the implementation of a rigorous repairs and maintenance programme, catching-up on incomplete historical upkeep, which will result in increased equipment availability. The integration process was accompanied by changes to the shift-work structures and these are expected to benefit ROM production in H2 FY2019.

Uitkomst benefitted from higher export thermal coal prices during the Period, generating a slightly higher profit before income and tax than the comparable period. Despite the challenges in the 18 months since acquisition, the colliery has delivered a profit before tax of some R96.3 million (\$6.9 million) over that period which clearly demonstrates that Uitkomst has been a superb investment for shareholders.

The granting of the Chapudi Project mining right is a step in unlocking value from MC Mining's long-term GSP coking and thermal coal assets. The mining right applications for the Mopane and Generaal Projects are at an advanced stage and we anticipate that these will be granted in the near future."

Project and Operation Review

Uitkomst Colliery (70% owned)

Uitkomst is a high-grade thermal export quality coal deposit with metallurgical applications employing approximately 554 employees. One LTI was recorded during the Period (FY2018 H1: nil) when an underground operator injured his foot.

Khethekile, Uitkomst's historical underground mining contractor, had recorded intermittent equipment availability and funding challenges. To ensure the colliery's sustainability, Uitkomst acquired Khethekile's operations in August 2018. This included conveyor systems, coal mining and transportation equipment and the transfer of some 340 Khethekile employees. The integration of staff, operations and systems commenced during the Period together with major machinery maintenance to improve asset availability. The integration processes have taken longer than anticipated, reducing ROM coal production levels. Additional new mining machinery was purchased during October and November 2018 and the commissioning of this equipment will positively contribute to production while the maintenance of the ex-Khethekile assets is ongoing. In addition, various other initiatives are underway to continue integrating the underground mining operations effectively.

The reduced asset availability resulted in ROM production declining 11% to 237,715t (FY2018 H1: 265,609t) while third party coal supply agreements that expired in FY2018 lead to ROM coal purchases decreasing from 80,727t to 12,466t. This resulted in sales from ROM coal declining to 157,452t (FY2018 H1: 174,948t) while comparable period sales volumes include 79,637t derived from purchased ROM coal (FY2019 H1: 6,035t). The limited availability of third party ROM coal resulted in no slurry being blended and sold to customers during the Period (FY2018 H1: 53,690t).

The Colliery benefitted from favourable coal prices and generated a similar EBITDA for the first half of FY2019 compared to H1 FY2018 – R46.3 million (\$3.3 million) vs. R45.2 million (\$3.4 million). The change in sales mix resulted in the proportion of lower margin blended slurry and purchased ROM coal sales declining, while higher international coal prices offset the comparatively lower sales volumes with revenue/t increasing 61% to \$88.91/t (FY2018 H1: 55.14/t). Notwithstanding ROM production declining 11%, production costs only increased by 10% compared to H1 FY2018 and included additional maintenance spend to improve mining equipment availability. The key production and financial metrics for the Period are detailed below.

	H1 FY2019	H1 FY2018	%Δ
<i>Production tonnages</i>			
Uitkomst ROM coal (t)	237,715	265,609	(11%)
Purchased ROM coal to blend (t)*	12,466	80,727	(85%)
	250,181	346,336	(28%)
<i>Sales tonnages</i>			
Own ROM coal (t)	157,452	174,948	(10%)
Slurry used for blending (t)	-	53,690	(100%)
Purchased ROM coal to wash or blend (t)*	6,035	79,637	(92%)
	163,487	308,275	(47%)
<i>Financial metrics</i>			
Revenue/t(\$)	88.91	55.14	61%
Production costs/saleable tonnes (\$)	47.70	43.32	10%

**supply contract completed during FY2018 and alternative sources are being investigated – sales originating from purchased ROM coal are by their nature lower profit margin transactions*

The Company identified an opportunity to extract saleable product from Uitkomst's discard coal and this project will yield an estimated additional 40,000t of high-ash thermal coal per annum. Construction of the project commenced during the Period with the first sales expected in Q3 FY2019. Uitkomst's 16-year life of mine includes the development of a north adit (horizontal shaft) and is dependent on approval from the Department of Water and Sanitation for the amendment to Uitkomst's Integrated Water Use License, prevailing coal prices and the availability of funding.

Makhado Coking Coal Project (95% owned – 69% post Broad Based BEE transaction)

The Makhado Project has the regulatory permits required to commence mining operations. No LTIs were recorded at Makhado during the Period (FY2018 H1: nil).

Progress on the development of the Makhado Project was previously delayed by lack of access to the key Lukin and Salaita properties located on the eastern side of the project area. This access was required in order to complete geotechnical drilling and confirm amongst other things, the positioning of processing plant infrastructure. During the Period the owners agreed to sell the properties for R70 million (\$5.0 million) and legal title to the properties was transferred to MC Mining's subsidiary, Baobab, in early January 2019. The first tranche of R45.5 million (\$3.2 million) was paid during the Period and the balance is payable within a maximum period of three years.

The Company also completed a large diameter drilling programme on the remaining Makhado Project area during the Period. The information from these holes will be used to confirm the coal handling and processing plant design criteria and was used in the Phase 1 FEED process completed in February 2019.

HCC typically attracts significantly higher sales prices compared to thermal coal and negotiations for the offtake of Makhado coal resulted in the signature of a three-year offtake agreement with HDCTC, a Chinese state-owned enterprise with logistics and bulk commodity trading interests. The offtake agreement will result in the annual supply of up to 450,000t of HCC from the Lukin and Salaita properties to HDCTC at index-linked prices from.

During the Period MC Mining signed HOAs with CRIG, a Chinese construction enterprise and the international focused division of China Railway Group. The HOAs are for the facilitation of a funding package for up to 85% of the Makhado Lite Project EPC contract value, negotiation of the EPC and mining contracts, all conditional upon the finalisation of mutually acceptable terms and conditions by June 2019.

Baobab applied to both the DMR and the Limpopo Department of Economic Development, Environment and Tourism (“LEDET”) for an amendment to Makhado’s Environmental Authorisation (“EA”) whereby coal will be transported by road rather than rail. Both LEDET and DMR approved the EA amendment but this decision, as expected, was appealed by a narrow interest group that appealed (and lost) their appeal against the original Makhado EA. This appeal results in the suspension of the EA Amendment and Baobab is addressing this matter with the regulatory authorities.

During March 2019, MC Mining’s directors approved the phased development of Makhado. The Makhado Project Phase 1 results in the commencement of mining operations on the west pit, followed by the development of Phase 2, which is the majority of the previously published Makhado Lite project and includes construction of the processing plant and infrastructure as well as mining of the east pit. The combined Phase 1 and Phase 2 projects have a minimum LOM of 46 years.

The implementation of Phase 1 lowers execution risk by reducing initial capital expenditure requirements as well as the construction period - the development of the Phase 1 pit, plant and infrastructure will take nine months compared to Makhado Lite’s 12 months.

The west pit will generate approximately 3.0Mtpa of ROM coal that will be crushed, screened and scalped at Makhado. The approximate 2.0Mtpa of scalped ROM coal will be trucked to MC Mining’s wholly owned Vele Colliery for final processing. The Company will also commence plant modifications at Vele, resulting in the facility being able to produce the expected output of 0.54Mtpa of HCC and 0.57Mtpa of 5,500kcal thermal coal. The saleable coal will be trucked to Musina siding for sale on domestic and export markets, utilising previously tested logistics infrastructure.

Vele Coking and Thermal Coal Colliery (100% owned)

The Vele Colliery remained on care and maintenance during the Period and no LTIs were recorded.

Phase 1 of the Makhado Project will result in the completion of plant modifications at Vele to facilitate the simultaneous production of HCC and thermal coal. The modifications will include amongst others, a new de-stoning plant, new fines circuit and froth flotation plant as well as conversion of the current plant feed stockpile into the new and HCC stockpiles.

Greater Soutpansberg Project (MbeuYashu) (74% owned)

The three longer-term GSPs recorded no LTIs during the Period.

The Mining right applications for the three project areas were submitted to the DMR during 2013. The Chapudi Project contains over 6.3 billion gross tonnes *in situ* of inferred coal resources¹ and was granted a mining right during the Period, a key step to unlocking value from GSP's significant coal assets. The Mopane and Generaal mining right applications are at an advanced stage and the Company anticipates that these will be granted in the near future, following which, the various studies required for the outstanding water and environmental regulatory approvals will commence.

Corporate

Mooiplaats disposal

The Company disposed of its interest in the Mooiplaats Colliery for \$12.9 million during FY2018 and an initial payment of \$4.8 million received with the balance payable on resolution of the final regulatory matters. These matters were resolved during the Period and the remaining \$8.1 million will be settled in ten equal quarterly instalments with the first two instalments received during the Period while a third instalment was received in February 2019.

Financial review

The loss for the six months under review was \$3.6 million or 2.49 cents per share compared to a loss of \$97.3 million, or 69.04 cents per share for FY2018 H1 and includes:

- revenue of \$15.2 million (FY2018 H1: \$17.0 million) and cost of sales of \$12.3 million (FY2018 H1: \$14.4million);
- gross profit of \$2.9 million (FY2018 H1: \$2.7 million);

- \$87.5 million impairment of the Vele Colliery assets in the comparative Period (FY2019 H1: 0.1 million);
- no profit or loss from operations classified as held for sale (FY2018 H1: reversal of prior year impairments on the sale of Mooiplaats of \$3.2 million);
- income tax expense of \$0.6 million (FY2018 H1: de-recognition of the deferred tax asset relating to Vele Colliery of \$5.6 million and income tax expense of \$1.3 million);
- net foreign exchange gain of \$0.1 million (FY2018 H1: loss of \$1.3 million) arising from the translation of inter-group loan balances, borrowings and cash due to changes in the ZAR:US\$ and AUD:US\$ exchange rates during the Period;
- employee benefit expense of \$2.6 million (FY2018 H1: \$3.9 million);
- other expenses of \$2.1 million (FY2018 H1: \$2.7 million); and
- depreciation of \$0.1 million (FY2018 H1: \$0.2 million).

The cash balance at the end of H1 FY2018 reflects the payment during the Period of \$3.2 million for the Lukin and Salaita farms. This payment is the most significant contributor to the Company's cash balance declining from \$10.9 million at June 2018 to \$5.5 million at the end of the Period.

Authorised by

David Brown

Chief Executive Officer

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Investec Bank Limited is the nominated JSE Sponsor

About MC Mining Limited:

MC Mining is an AIM/ASX/JSE listed coal exploration, development and mining company operating in South Africa. MCM's key projects include the Uitkomst Colliery (metallurgical and thermal coal), Makhado Project (coking and thermal coal), Vele Colliery (coking and thermal coal), and the Greater Soutpansberg Projects (MbeuYashu).

Forward-Looking Statements

This Announcement, including information included or incorporated by reference in this Announcement, may contain "forward-looking statements" concerning MC Mining that are subject to risks and uncertainties. Generally, the words "will", "may", "should", "continue", "believes", "expects", "intends", "anticipates" or similar expressions identify forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Many of these risks and uncertainties relate to factors that are beyond MCM's ability to control or estimate precisely, such as future market conditions, changes in regulatory environment and the behaviour of other market participants. MCM cannot give any assurance that such forward-looking statements will prove to have been correct. The reader is cautioned not to place undue reliance on these forward looking statements. MCM assumes no obligation and do not undertake any obligation to update or revise publicly any of the forward-looking statements set out herein, whether as a result of new information, future events or otherwise, except to the extent legally required.

Statements of intention

Statements of intention are statements of current intentions only, which may change as new information becomes available or circumstances change.

Regulatory

This announcement is inside information for the purposes of Article 7 of Regulation 596/2014.

¹ The GSP independent Competent Persons Report can be found on the Company's website: <http://www.mcmining.co.za/our-business/projects/gsp-mbeu-yashu>