



ANNOUNCEMENT

30 September 2019

RESULTS FOR THE FULL YEAR ENDING 30 JUNE 2019

MC Mining Limited ("MC Mining" or the "Company") is pleased to provide its audited financial statements for the year ended 30 June 2019 (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.mcmMining.co.za.

Highlights

Operational salient features

- No fatalities (FY2018: nil) and four lost-time injuries ("LTI") (FY2018: one LTI) during the 12 months;
- The Uitkomst thermal and metallurgical colliery ("Uitkomst" or "Uitkomst Colliery") produced 485,113 tonnes ("t") (FY2018: 607,960t) of coal comprising 472,647t (FY2018: 505,130t) of run-of-mine ("ROM") coal while 12,466t (FY2018: 102,830t) were purchased from third parties during the Period;
- The colliery sold 309,401t (FY2018: 475,079t) of coal – 303,366t (FY2018: 329,060t) from ROM coal and 6,035t (FY2018: 92,330t) from purchased coal – generating sales revenue of \$26.4 million (FY2018: \$32.7 million);
- Conclusion of a hard coking coal ("HCC") off-take agreement with ArcelorMittal South Africa Limited ("AMSA") for the annual purchase of 350,000t to 450,000t of HCC that will be produced from Phase 1 of the Makhado hard coking coal project ("Makhado Project" or "Makhado");
- Thermal coal off-take agreement signed with one of the world's largest producers and marketers of bulk commodities for the purchase of the Makhado Phase 1 by-product;

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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 H Zhen, Sebastiano Randazzo

- Coal Purchase Agreement with Huadong Coal Trading Center Co, Ltd ("HDCTC"), a Chinese state-owned enterprise, for the off-take of up to 450,000t per annum of HCC that will be produced by Phase 2 of Makhado;
- In total, off-take agreements now secured for approximately 85% of Phase 1 HCC, 100% of the Phase 1 thermal coal by-product and 50% of Phase 2 HCC;
- Construction of Phase 1 expected to commence in Q4 CFY2019/ Q1 CY2020;
- Completion of plant modifications at Uitkomst in H2 FY2019 facilitating the sale of 8,315t (FY2018: nil) high ash, coarse discard product;
- The limited supply of third party coal for washing or blending resulted in no sales from blending slurry (FY2018: 53,689t);
- Average revenue per tonne up 28% to \$81.39/t (FY2018: \$63.52/t);
- Production costs reduced by 7% to \$46.94 per saleable tonne, primarily due to ZAR:US\$ exchange rates;
- Uitkomst transitioned to an owner operated colliery with the acquisition of the underground mining contractor, Khethekile Mining (Pty) Ltd's ("Khethekile") operations, with the transfer of approximately 340 staff;
- Approval for the amendment to the Environmental Authorisation ("EA") for the Makhado Project allowing for the transport of coal by road rather than rail, reaffirming the project's permitted status;
- Acquisition of the Lukin and Salaita properties, the remaining two surface rights required for Makhado;
- MC Mining board conditionally approved the phased development of the Makhado Project;
- Completion of the front-end engineering and design (FEED) process for Phase 1 of the Makhado Project;

- The Vele semi-soft coking coal colliery ("**Vele Colliery**") remained on care and maintenance and the colliery's existing processing plant will be modified as part of Phase 1 of the Makhado Project; and
- The South African Department of Mineral Resources ("**DMR**") granted a Mining Right ("**MR**") for the Chapudi coking and thermal coal project ("**Chapudi Project**"), one of the three projects comprising the Company's longer-term Greater Soutpansberg Project ("**GSP**").

Corporate salient features

- Net proceeds of \$6.3 million from the disposal of the Mooiplaats thermal coal colliery ("**Mooiplaats Colliery**") including the receipt of three initial instalments and subsequent negotiated early settlement of the outstanding balance;
- Extension for a further six months of the \$8.5 million (ZAR120.0 million) facility from the Industrial Development Corporation of South Africa Limited ("**IDC**") to MC Mining's subsidiary, Baobab Mining and Exploration Proprietary Limited, for the development of Makhado;
- Uitkomst Colliery secured a \$1.1 million (ZAR15.0 million) ABSA Bank Limited ("**ABSA**") revolving asset finance facility for the acquisition of additional mining equipment as well as a \$1.4 million (ZAR20.0 million) primary lending facility; and
- Co-operation agreement signed with Haohua Energy International (Hong Kong) aligning substantial shareholders' threshold to appoint directors to the MC Mining board and further reinforcing cooperation on matters technical and marketing.

Coal markets

- HCC prices were robust during the Period with average prices 2% higher than the previous financial year. However, these prices declined 20% between 30 June and the end of August 2019; and
- Thermal coal prices experienced significant fluctuations during FY2019 with average prices 7% lower than the prior year due to competition from the increased supply of 'cheaper' liquefied natural gas, also used as a bulk energy source.

Financial review

- Operating cash flows of \$2.5 million generated by the Uitkomst Colliery;
- Payment of a \$1.1 million dividend by Uitkomst;
- Receipt of three quarterly instalments totalling \$2.4 million as well as the negotiated early settlement of \$4.1 million as a final payment of the Mooiplaats sale proceeds;
- \$8.5 million of the \$17.0 million three-year IDC loan was available at year-end;
- \$1.4 million available under the ABSA primary lending facility;
- The R/\$ exchange rate continues to be volatile and gains/losses from these elements are unpredictable;
- Contributing to the loss were non-cash charges of \$29.9 million which includes:
 - net impairment expense of \$21.9 million;
 - net interest expense accrued of \$5.7 million;
 - depreciation and amortisation of \$2.3 million;
 - share based payment expense of \$0.9 million;
 - unrealised foreign exchange gain of \$0.2 million; and
- Total unrestricted cash balances at year-end of \$8.8 million.

David Brown, CEO commented:

“The past financial year was very successful for the Company and we completed several critical milestones for our flagship Makhado Project. This resulted in the Company’s directors conditionally approving its phased development, reducing the execution risk while ensuring scalability of the project. The utilisation of the existing, modified Vele processing plant as part of Phase 1 reduces initial capital expenditure requirements and shortens the construction period with the project also using previously tested rail, road and siding logistics infrastructure.

The development of the Makhado Project will result in MC Mining being the pre-eminent South African producer of hard coking coal. This coal trades at a significant premium to thermal coal and is a key ingredient contributing to the manufacture of steel. The long-term viability of Makhado is supported by forecast long-term growth in global steel demand, with economic development and urbanisation driving increases in per capita steel usage.

The Company overcame a major hurdle to the development of Makhado when it acquired two key farms during the Period and MC Mining now owns all four properties encompassed in the mining area. The project's fully permitted status was further confirmed following approval for amendments to its EA, allowing for the transport of coal by road rather than rail.

We also secured three off-take agreements during the Period, reaffirming international and domestic demand for Makhado's hard coking coal and export quality thermal coal by-product as well as satisfying a key requirement for funders. Makhado will utilise composite debt/equity funding and initiatives to secure this commenced during the Period. This resulted in the July 2019 IDC Credit Committee approved term sheet of \$17.4 million. Construction of Phase 1 of the Makhado Project is expected to commence in Q4 CY2019/ Q1 CY2020.

The acquisition of Uitkomst's underground contract mining operations presented unique challenges, including the integration of staff and systems and rigorous repairs and maintenance to improve equipment availability. Production of ROM coal at the colliery was adversely affected during the integration process while trialled changes were made to the underground shift systems. These changes did not yield the desired results and the shift system reverted to original plans in early CY2019. The primary driver of declines in coal volumes was the expiry of a third party supply contract in the prior year, leading to a significant decrease in sales volumes.

The Period also witnessed the granting of the Chapudi Project Mining Right, a key step in unlocking value from our 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."

Review of Operations

Uitkomst Colliery (70% owned)

The Uitkomst Colliery is a high-grade thermal export quality coal deposit with metallurgical applications and reported four LTIs (FY2018: one LTI) during the Period. The colliery has the required environmental and social permits in place and currently mines the south adit (horizontal shaft) and has applied for an amendment of its Integrated Water Use License to include an adit to the north of current operations.

The underground mining operations at Uitkomst were historically undertaken by Khethekile, an independent contract miner who had previously experienced equipment availability challenges. The Company instituted various investigations into possible solutions to improve equipment availability as well as production, resulting in Uitkomst acquiring Khethekile's business operations at the colliery in early August 2018. This included the transfer of assets and integration of some 340 staff.

Uitkomst was cash generative for the year with the 35% decline in sales volumes driven by a 6% drop in ROM coal production while the expiry of a supply contract in FY2018 resulted in an 88% decline in purchased ROM coal.

The key production and financial metrics for the Period are detailed below.

	FY2019	FY2018	%Δ
<i>Production tonnages</i>			
Uitkomst ROM (t)	472,647	505,130	-6%
Purchased ROM to blend (t)*	12,466	102,830*	-88%
	485,113	607,960	-20%
<i>Sales tonnages</i>			
Own ROM (t)	295,051	329,060	-10%
Slurry used for blending (t)	-	53,689	-100%
Middlings sales	8,315	-	100%
Purchased ROM to wash or blend (t)*	6,035	92,330	-93%
	309,401	475,079	-35%

	FY2019	FY2018	%Δ
Financial metrics			
Revenue/t(\$)	81.39	63.52	28%
Production costs/saleable tonnes (\$)^	46.94	50.38	-7%

**contract completed during FY2018 and potential alternative sources are being investigated*

^all costs are Rand based

Geological challenges, asset availability and integration of underground operations resulted in ROM production decreasing 6% to 472,647 (FY2018: 505,130t), yielding coal sales of 295,051t (FY2018: 329,060t). The integration process included initiatives to increase time spent underground resulting in the implementation 12-hour shifts. These adjustments to the shift programme did not yield the envisaged results and the shift system reverted to the previous arrangement in early CY2019.

Uitkomst produces saleable coal from the purchase of third party ROM coal from nearby collieries. This coal is washed or blended and the expiry of supply contracts resulted in ROM coal purchases declining from 102,830t to 12,466t and sales of this washed or blended coal reduced from 92,330t to 6,035t. This also affected the processing of slurry and no sales were derived from the blending of slurry during the Period (FY2018: 53,689t). Uitkomst undertook and completed modifications to its processing plant during H2 FY2019 allowing for the production of an additional high ash, coarse discard coal. This contributes to a higher overall yield and 8,315t (FY2018: nil) of middlings product were sold during the Period.

Despite the year-on-year 7% decline in average API4 coal prices, revenue per tonne improved 28% on FY2018. This is due to a change in the sales mix with a larger proportion of sales volumes being higher grade sized coal products compared to FY2018's sales volumes that included higher volumes of lower quality coal. The colliery has a Rand denominated cost base and production costs benefited from the 10% weakening of the Rand against the US dollar during the Period.

Makhado Hard Coking Coal Project (69% owned)

The Makhado Project recorded no LTIs during the Period (FY2018: nil). The regulatory authorities' dismissed appeals against amendments to Makhado's EA allowing for the

transport of coal, by road rather than rail. This reinforces the robustness of the project's permitting processes and its fully permitted status. This was complimented during the Period with the acquisition of two key properties and Makhado owns all four farms comprising the mining area.

The significant milestones achieved resulted in the Company's directors conditionally approving the phased development of the Makhado Project. The development of the project in phases reduces execution risk and capital expenditure and ensures its scalability, delivering similar returns to the original Makhado Project.

The Company anticipates that Phase 1's nine-month construction period will commence in Q4 CY2019/ Q1 CY2020 with first sales in month ten. This phase incorporates the development of the west pit and modifications to the existing Vele Colliery processing plant while Phase 2 includes the construction of the east and central pits and the Makhado processing and related infrastructure.

Phase 1 will produce approximately 3.0 million tonnes per annum ("**Mtpa**") of ROM coal that will be crushed, screened and scalped at Makhado. The resultant 2.0Mtpa of scalped ROM coal will be transported to the Vele Colliery for final processing, yielding approximately 0.54Mtpa of HCC and 0.57Mtpa of an export quality thermal coal by-product.

Phase 2 is expected to commence in *circa* CY2022, funding and market dependent, and will result in 4.0Mtpa of ROM coal producing approximately 1.7Mtpa of saleable HCC and thermal coal. Phase 2 has a 12-month construction period with first coal sales in month 13.

The Company signed an off-take agreement with AMSA for approximately 85% of the Phase 1 HCC and the balance will be utilised to further develop the market for this coal. MC Mining also secured a five-year off-take with one of the world's largest commodity traders for all of the Phase 1 thermal coal by-product. The off-take with HDCTC for Phase 2 HCC will result in their purchase of up to 450,000t per annum of Phase 2 HCC which is approximately 50% of forecast production. The signature of the off-take agreements reaffirms the world-class quality of Makhado's coal and satisfies a key requirement for funders.

Phase 1 funding

The significant progress made on the Makhado Project during the Period, including the securing of the off-takes, allowed for the commencement of the composite Phase 1 debt/equity funding process. This resulted in the July 2019 IDC Credit Committee approved a term loan facility of \$17.4 million, subject to certain conditions. The IDC debt is a key step in the funding package. The Company expects to complete the funding process in Q4 CY2019.

Vele Coking and Thermal Coal Colliery (100% owned)

The Vele Colliery remained on care and maintenance and no LTIs were recorded during the Period (FY2018: nil).

The colliery has all the regulatory approvals required to recommence operations and the existing Vele processing plant will be modified as part of Phase 1 of the Makhado Project. These modifications include circuits to capture the fine coal fraction and will facilitate the simultaneous production of two products, namely HCC and a thermal coal by-product. The Company anticipates that following the nine-year Makhado Phase 1 life-of-mine in *circa* 2028, the Vele Colliery will ideally positioned to potentially supply semi-soft coking coal and thermal coal to the government gazetted Limpopo Special Economic Zone.

Greater Soutpansberg Project (74% owned)

The GSP recorded no LTIs during the 12 months (FY2018: nil).

The exploration and development of the three GSP areas namely the Chapudi, Mopane and Generaal, is the catalyst for MC Mining's long-term growth. The Company and applied for MRs for the three project areas during 2013. The DMR granted the Chapudi Project MR in December 2018 and this was subsequently appealed. The MR applications for the Mopane and Generaal Projects are being processed and the Company is hopeful that these licences will be granted during FY2020.

Coal pricing

Metallurgical coal markets remained robust during FY2019 and average prices were 2% higher than the corresponding period. However, global uncertainty led to prices declining significantly post year-end – from \$190/t at the end of June 2019 to \$153/t in August 2019.

Average API4 thermal coal prices were volatile during FY2019 and prices were 7% lower than the prior year.

Financial review

The loss for the Period from continuing operations decreased to \$33.7 million (23.72 US cents per share) compared to \$103.8 million or 71.99 US cents per share for the prior corresponding period.

The loss for the Period includes:

- Revenue from Uitkomst of \$26.4 million (FY2018: \$32.7 million) due to a 6% reduction in Uitkomst ROM coal production as well as a 88% decline in ROM coal purchased for blending or washing;
- The reduced coal volumes and the weaker ZAR:US\$ exchange rate resulted in cost of sales decreasing from FY2018's \$27.3 million to \$25.4 million, yielding a gross profit of \$1.0 million (FY2018: \$5.4 million);
- The approximate 20% reduction in HCC prices post year-end and the 34% decrease in API4 prices in H2 FY2019 resulted in management assessing the carrying value of the Makhado Project. This assessment resulted in a non-cash impairment of \$23.7 million. The impairment was allocated to the payments made by MC Mining in 2007 for the acquisition of two prospecting rights that were subsequently incorporated into the Makhado MR;
- Net foreign exchange gain of \$0.3 million (FY2018: loss of \$1.5 million) arising from the translation of inter-group loan balances, borrowings and cash due to changes in the ZAR:US\$ and A\$:US\$ exchange rates during the Period;
- Administrative employee expenses of \$4.9 million with FY2018's charge of \$6.0 million including a \$1.3 million accrual for once-off staff retention expense;
- Net interest expense \$4.6 million (FY2018: \$2.4 million) on borrowings, deferred consideration and finance leases;

- The decline in Uitkomst sales volumes resulted in cash from operating activities declining by \$3.9 million to \$2.5 million; and
- Cash inflows from investing activities of \$4.6 million (FY2018: \$608k) include the receipts of the outstanding balance for Mooiplaats, sale of certain farms net of the Lukin and Salaita farm acquisition and the Khethekile underground contractor acquisition.

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

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. MC Mining's key projects include the Uitkomst Colliery (metallurgical coal), Makhado Project (coking and thermal coal), Vele Colliery (coking and thermal coal), and the Greater Soutpansberg Projects (coking and thermal coal).

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 MC Mining's ability to control or estimate precisely, such as future market conditions, changes in regulatory environment and the behaviour of other market participants. MC Mining 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. MC Mining 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.

MC Mining has ensured that the mineral resources quoted are subject to good governance arrangements and internal control. The Company has engaged external independent consultants to update the mineral resource in accordance with the JORC Code 2012 and SAMREC 2016. The units of measure in this report are metric, with Tonnes (t) = 1,000kg. Technical information that requires subsequent calculations to derive subtotals, totals and weighted averages may involve a degree of rounding and consequently introduce an error. Where such errors occur MC Mining does not consider them to be material.