



MCMining
LIMITED

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2021

(Expressed in United States Dollars unless otherwise stated)

MC MINING LIMITED
ANNUAL CONSOLIDATED FINANCIAL STATEMENTS INDEX

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MC MINING LIMITED

DIRECTORS' REPORT

The directors of MC Mining Limited ("MC Mining" or the "Company") submit herewith the annual report of the Company and the entities controlled by the Company (its subsidiaries), collectively referred to as the "Group", for the financial year ended 30 June 2021. All balances are denominated in United States dollars unless otherwise stated.

In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Information about the directors and key management personnel

The names and particulars of the directors of the Company during or since the end of the financial year are set out below. Unless otherwise stated, the directors held office during the whole of the financial year:

Bernard Robert Pryor	Independent Non-Executive Chairman	Mr Pryor is a Chartered Engineer and currently the chief executive officer of Alufer Mining Limited and was previously the CEO of African Minerals Limited and prior to that the Chief Executive of Q Resources Plc. He is also a director of Petra Diamonds Limited. Between 2006 and 2010 he held senior executive positions within Anglo American Plc as Head of Business Development, and CEO of Anglo Ferrous Brazil Inc.
Sebastiano (Sam) Randazzo	Executive Director, Interim Chief Executive Officer	Mr Randazzo was appointed as an Executive Director and Interim CEO of MC Mining on 15 February 2021. Sam Randazzo began his career with Arthur Young (predecessor firm to Ernst & Young) before working as a consultant across a variety of projects in the USA, Australia, Canada, Africa and South America and is a member of Chartered Accountants Australia and New Zealand. He has over 25 years' experience in the international mining industry with extensive public company management expertise from roles as chairman, director, chief executive officer, chief financial officer, company secretary and executive director positions of ASX, TSX and AIM listed mineral resource companies. Mr Randazzo has completed numerous feasibility studies, mergers and acquisitions and capital-raising and has operational management experience in Australia, South America, USA, Canada and the UK.

An Chee Sin	Non-executive Director	Mr Chee Sin is an Accredited Tax Practitioner with the Singapore Institute of Accredited Tax Professionals and is also a Chartered Accountant with the Institute of Singapore Chartered Accountants. He has more than 17 years of extensive experience in international and local corporate taxation and co-founded Pinnacle Tax Services Pte Ltd (Pinnacle Tax) in 2004. Prior to joining Pinnacle Tax he held the position of Director of Corporate Tax with KPMG and has coordinated various advisory projects, including cross-border fund structures, corporate restructurings, treasury and mergers and acquisitions.
Andrew David Mifflin	Independent Non-Executive Director	Mr Mifflin obtained his BSc. (Hons) Mining Engineering from Staffordshire University and has a Master's Degree in Business Administration. Andrew has over 30 years' experience specifically in the coal mining arena. His experience spans across various organisations such as British Coal Corporation, Xstrata and more recently GVK Resources. He has gained in depth knowledge in coal operations, both thermal and hard coking coal as well as in project development.
Brian He Zhen	Non-executive Director	Mr Zhen holds a bachelor's degree in business administration from Sichuan University and is currently Marketing and Public Relations Executive for Pan African Mining Pvt. Ltd. Between 2012 and 2015, Brian worked as Managing Director of Real Gain Investment Pvt. Ltd and was responsible for infrastructure and construction market development, as well as overseas market investments. He has previously served as Construction Manager for CRI – Eagle Investments (Pty) Ltd and Eagle Canyon Investments (Pty) Ltd.
Khomotso Brian Mosehla	Independent Non-Executive Director	Mr Mosehla is a CA (SA) and completed his articles with KPMG. Khomotso worked at African Merchant Bank Limited for five years where he gained a broad range of experience, including management buy-out, leveraged buy-out and capital restructuring/raising transactions. In 2003, he established Mvelaphanda Corporate Finance for the development of Mvelaphanda's mining and non-mining interests. Mr Mosehla served as a director on the boards of several companies, including Mvelaphanda Resources Limited and was the CFO of The Housing Development Agency until March 2021. Mr Mosehla served as a Non-executive Director of Northam Platinum Limited as well as Zambezi Platinum Limited until June 2021.

Shangren Ding	Non-executive Director	Mr Ding is an experienced professional engineer and has worked for a number of mining and energy companies as well as acting as a consultant to government geological bureaus. Shangren has over 30 years' experience predominantly in the coal mining sector and has gained extensive operational coal mining knowledge through chief operating roles at a number of mines in the Heilongjiang province in the People's Republic of China. Since 2014, Mr Ding has worked in a number of senior roles for Beijing Haohua Energy Resource Co., Ltd.
Brenda Berlin	Former Executive Director, Chief Financial Officer and Acting Chief Executive Officer	Ms Berlin was appointed as CFO and Executive Director of MC Mining in 2018 from Implats where she held the position of Group CFO. Brenda joined Implats in 2004 and held a number of senior appointments including head of group corporate finance activities until her appointment as CFO in 2011. She is a CA (SA) and obtained degrees from the University of the Witwatersrand and completed her articles at PwC South Africa. Prior to working at Implats, Brenda worked for Johnnic Holdings Limited in the corporate finance department and following its unbundling, remained with JCI Limited (JCI) assuming responsibility for business development. After leaving JCI, Brenda commenced working for Southern Mining Corporation Limited.

Brenda Berlin resigned on 15 February 2021. Sam Randazzo was appointed interim Chief Executive Officer on 15 February 2021. All other directors held office during and since the end of the previous financial year.

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Directorships of other listed companies

Directorships of other listed companies held by the directors in the three years immediately before the end of the financial year are as follows:

Director	Company	Period of directorship
Bernard Pryor	Petra Diamonds Limited	January 2019 - Present
Sam Randazzo	Bardoc Gold Limited	October 2018 – March 2019
	Excelsior Gold Limited	October 2016 – October 2018
An Chee Sin	None	
Andrew Mifflin	None	
Brian He Zhen	None	
Khomotso Mosehla	Northam Platinum Limited	2015 – 2021
	Zambezi Platinum Limited	2015 – 2021
Shangren Ding	None	

Directors' shareholdings

The following table sets out each director's relevant interest in shares or options in shares or debentures of the Company as at the date of this report.

Director	Ordinary shares	Performance rights	Unlisted options
B Pryor	7,500	–	–
A Chee Sin	–	–	–
A Mifflin ⁽³⁾	–	–	–
H Zhen	–	–	–
K Mosehla	–	–	–
S Randazzo	–	–	–
S Ding	–	–	–
	7,500	-	–

Remuneration of directors and key management personnel

Information about the remuneration of directors is set out in the remuneration report of this directors' report, on pages 10 to 17. Shareholder nominee non-executive directors are not remunerated. During the reporting period, no senior management satisfy the criteria of 'key management personnel'.

Share options granted to directors and senior management

During and since the end of the financial year, share options and performance rights were granted to Directors and key management personnel of the Company and of its controlled entities as part of their remuneration. Details of options and performance rights granted to Directors and senior management are set out on page 14.

Company secretary

Mr Tony Bevan, a qualified Chartered Accountant with over 25 years' experience, is the Company Secretary and works with Endeavour Corporate Pty Ltd, the company engaged to provide contract secretarial, accounting and administration services to MC Mining.

Principal activities

The Company is a limited company incorporated in Australia. Its common shares are listed on the ASX, the AIM and the JSE in South Africa. The principal activities of the Company and its subsidiaries 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 Uitkomst Colliery, an operating metallurgical and thermal coal mine with a *circa* 15-year life of mine ("LOM");
- Makhado hard coking and thermal coal project;
- The Vele Colliery, a semi-soft coking and thermal coal mine, which remains on care and maintenance; and
- Three exploration and development stage coking and thermal coal projects, namely Chapudi, Generaal and Mopane in the Soutpansberg Coalfield.

Review of operations - salient features

- No fatalities (FY2020: nil) and six LTI's (FY2020: nine);
- The Uitkomst Colliery produced 490,100 tonnes (t) (FY2020: 431,354 t) of run of mine ("ROM") coal during the twelve months to 30 June 2021;
- Uitkomst ROM coal production was 14% higher than FY2020 due to the South African Government-imposed COVID-19 lockdown restrictions in place between March and June of CY2020 preventing mining and processing at Uitkomst;
- Ramp-up of operations at Uitkomst commenced in July 2020 but high levels of absenteeism due to COVID-19 preventative measures resulted in lower than anticipated coal production for the first six months of FY2021;
- The Uitkomst Colliery's customers also suspended operations to prevent the spread of COVID-19 and order volumes normalised towards the end of Q1 FY2021. The colliery's largest customer experienced equipment and operational challenges in September 2020 and again in February/March 2021, adversely affecting orders of high quality Uitkomst coal;
- Uitkomst sold 292,261t of coal in FY2021 (FY2020: 254,193t) comprising 265,879t (FY2020: 228,206t) of premium duff and sized peas and 26,382t (FY2020: 25,987t) of high ash, coarse discard coal - generating sales revenue of \$20,702 thousand (FY2020: \$17,155 thousand);
- Thermal coal prices declined significantly during Q2 CY2020 following the spread of the COVID-19 pandemic. The API4 export thermal coal price improved during FY2021, increasing from \$53/t in July 2020 to \$115/t at the end of the financial year 2021;
- Limited activities at the Company's ("Makhado Project" or "Makhado"), Vele semi-soft coking and thermal coal colliery ("Vele Colliery" or "Vele") and Greater Soutpansberg Projects ("GSP") during FY2021;

- The Vele processing plant is expected to be refurbished and recommissioned as part of Phase 1 of the Makhado Project when financed; and
- The Department of Mineral Resources & Energy ("DMRE") granted the mining right for the Mopane Project, the third and final mining right for the GSP area.

Corporate salient features

- Restructuring of the Industrial Development Corporation of South Africa Limited ("IDC") loan facility of \$16,772 thousand (ZAR240,000 thousand) (the "IDC Facility"), originally secured in March 2017. In addition to the initial \$8,386 thousand (ZAR120,000 thousand) draw down in May 2017 (the "First Drawdown"), the IDC agreed that the Company's subsidiary, Baobab Mining & Exploration Proprietary Limited ("Baobab"), draw down \$2,795 thousand (ZAR40,000 thousand) representing the second tranche drawn on that loan facility (the "Second Drawdown"). The remaining \$5,591 thousand (ZAR80,000 thousand) undrawn balance was then cancelled;
- The August 2020 IDC Facility restructure was conditional upon the Company raising \$1,048 thousand (ZAR15,000 thousand) in the form of new equity which resulted in the Company issuing 13,331,433 new shares;
- The terminal drawdown date of the new \$17,121 thousand (ZAR245,000 thousand) new IDC facility ("New IDC Facility") for the development of Phase 1 of the Makhado Project was is available for drawdown prior to 31 January 2022, subject to the IDC re-affirming its financial due diligence;
- Recommencement of composite debt/equity funding initiatives for the Makhado Project following delays due to COVID-19; and
- Mr Sam Randazzo was appointed as Interim Chief Executive Officer ("CEO") following the resignation of Ms Brenda Berlin.

Subsequent events

- During July 2021 the IDC extended the repayment of the IDC Facility as well as the drawdown of the new \$17,121 thousand (ZAR245,000 thousand) facility ("New Facility"), both to 31 January 2022.
- Prepayment of \$2.1 million (ZAR29.7 million) from Uitkomst's largest customer for 16,500t of coal, to be amortised at 2,750t over six months from September 2021 to February 2022, improving working capital management in the near-term and forms part of the going concern assumptions assessed by the Company's auditors.

Financial review

- Operations were impacted by the COVID-19 pandemic and this resulted in operational challenges with two periods of equipment breakdowns at the Uitkomst Colliery's largest customer.
- Operating cash flows of \$1,723 thousand generated by the Uitkomst Colliery;
- Continued shareholder support facilitated the restructuring of the IDC Facility during the year and subsequent extension of the repayment of this facility as well as the drawdown of the New Facility;
- The R/\$ exchange rate continued to be volatile more so with the impact of COVID-19 and gains/losses from these elements are unpredictable;
- Contributing to the loss of \$11,837 thousand (2020: \$12,190 thousand) were non-cash charges of \$9,460 thousand (FY2020: \$4,281 thousand) which includes the following:
 - Net impairment expense of \$6,759 thousand (FY2020: \$1,257 thousand)
 - depreciation and amortisation of \$2,533 thousand (FY2020: \$2,608 thousand)
 - share based payment expense of \$168 thousand (FY2020: \$416 thousand)
- Total unrestricted cash balances at year-end of \$3,226 thousand (FY2020: \$2,678 thousand).

Going concern

Attention is drawn to the disclosure in the annual financial statements on the going concern assumptions (refer note 1 of the annual financial statements). noting that there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that the entity may be unable to realise its assets and discharge its liabilities in the normal course of business

The directors are satisfied however, at the date of signing the financial report, that there are reasonable grounds to believe that the Group will be able to continue to meet its debts as and when they fall due and that it is appropriate for the financial statements to be prepared on a going concern basis. The directors have based this on a number of assumptions which are set out in detail in note 1 to the accounts. In order to meet its working capital requirements, the Group is exploring and progressing on several alternative strategies to raise additional funding including, but not limited to:

- The issue of new equity for cash in the Company to current and new shareholders, of which the Group has a demonstrated history of success in this regard;
- The issue of new equity for cash in subsidiary companies which own the Makhado project;
- Further debt funding;
- Further contractor BOOT funding arrangements; and
- The sale of a minority stake in the subsidiary companies holding the Makhado Project.

The Group also has the capacity if necessary to reduce its operating cost structure in order to minimise its working capital requirements and defer the timing of any future capital raising.

The conclusion of the debt and equity raise is by its nature an involved process and is subject to successful negotiations with the external funders and shareholders. Any equity raise is likely to be subject to a due diligence process. The Group has a history of successful capital raisings to meet the Group's funding requirements. The directors believe that at the date of signing the annual financial statements there are reasonable grounds to believe that they will be successful in achieving the matters set out above and that the Group will therefore have sufficient funds to meet their obligations as and when they fall due.

Future developments

MC Mining aims to become the preeminent hard coking coal ("HCC") producer in South Africa and will continue to build on the progress made during FY2021. The main focus for FY2022 will be to secure the funding for the construction of Makhado Phase 1, and once funding is received to begin construction.

The Makhado Project is fully permitted and has 344.8 million mineable tonnes of coal in situ. The Company has completed a Competent Persons Report (CPR) for the project and the phased development of Makhado was approved by the Company's directors during FY2019. Phase 1 incorporates the development of the west pit and modifications to the existing Vele Colliery processing plant. The development of the project in phases reduces execution risk, capital expenditure, shortens the mine's construction period and ensures the scalability of the project. Phase 1 will produce approximately 3.0 million tonnes per annum ("Mtpa") of ROM coal that will be screened and scalped at Makhado. The resultant 2.0Mtpa of scalped ROM coal will be transported to the Vele Colliery for final processing and will yield approximately 0.54Mtpa of HCC and 0.57Mtpa of an export quality thermal coal as a by-product. ArcelorMittal South Africa Limited ("AMSA") have signed an off-take agreement for 350,000-450,000 tonnes per annum ("tpa") of Phase 1 HCC.

Phase 2 could commence in circa CY2026, subject to funding and the market conditions, and includes the construction of the east pit as well as the Makhado processing plant and related infrastructure. This phase will result in 4.0Mtpa of ROM coal producing 1.7Mtpa of saleable HCC and thermal coal.

The exploration and development of MC Mining's three Soutpansberg coalfield projects namely the Chapudi, Mopane and Generaal project areas, is the catalyst for the long-term growth of the Company. The DMRE has granted mining rights for all three project areas, and the GSP collectively comprises over 7.1bn tonnes of coal.

Environmental regulations

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation and there has consequently been no breach. The Group is subject to numerous environmental regulations in South Africa, including:

- National Environmental Management Act, 1998 (No. 107 of 1998): Amendment to the Environmental Impact assessment regulations 2014;

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- National Water Act, 1998 (No.36 of 1998);
- National Heritage Resources Act, 1999 (Act 25 of 1999); and
- National Environmental Management Air Quality Act, 2004 (No. 39 of 2004).

The Board believes that there are adequate systems in place for the management of its environmental impacts but from time to time statutory non-compliances may occur. The Board takes these seriously and continues to monitor compliance.

Corporate Governance

The Group recognises the need for the highest standards of corporate behaviour and accountability. The Directors have accordingly followed the recommendations set by the ASX Corporate Governance Council. For further information on corporate governance policies adopted by MC Mining Limited, refer to the website:

<http://www.mcmining.co.za/corporate-governance/board-committees-and-charters> and the annual report.

Dividends

No dividend has been paid or proposed for the financial year ended 30 June 2021 (FY2020: nil).

Shares under option or issued on exercise of options or performance rights

There are no unissued shares under option as at the date of this report.

Details of unissued performance rights granted as at the date of this report are:

	Number of shares under performance rights	Class of shares	Exercise price	Expiry period
Performance rights	960,127	Ordinary	Nil	November 2021
Performance rights	1,602,393	Ordinary	Nil	March 2022
Performance rights	1,143,657	Ordinary	Nil	November 2022
Performance rights	4,858,467	Ordinary	Nil	November 2023
Total performance rights	8,564,644			

No other shares or interests were issued during or since the end of the financial year as a result of the exercising of options or meeting of performance rights criteria.

Indemnification of officers and auditors

During the financial year, the Company paid a premium of \$141 thousand (FY2020: \$175 thousand) in respect of a contract insuring the directors of the Company, the Company Secretary, and all executive officers of the Company and of any related body corporate against a liability incurred by such a director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred by such an officer or auditor.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, a total of four scheduled and seven unscheduled board meetings were held as well as five Nomination and Remuneration Committee, four Safety and Health Committee meetings and four Audit and Risk Committee meetings were held.

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Director	Board Meetings		Audit and Risk Committee Meetings		Nomination and Remuneration Committee Meetings		Safety, Health and Environment Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
B Pryor	11	11	–	–	5	5	4	3
S Randazzo ⁽¹⁾	11	11	2	2	5	5	2	2
B Berlin ⁽²⁾	6	5	–	–	–	–	–	–
A Chee Sin	11	9	4	4	–	–	–	–
A Mifflin	11	11	–	–	–	–	4	4
H Zhen	11	11	–	–	–	–	–	–
K Mosehla	11	8	4	4	5	4	–	–
S Ding	11	11	–	–	–	–	–	–

1. Appointed Interim CEO and Executive Director on 15 February 2021.
2. Resigned on 15 February 2021.

Proceedings on behalf of the Company

No persons applied for leave to bring or intervene in proceedings on behalf of the Company during or since the end of the financial year.

Non-audit services

No non-audit services were provided during the current financial year. Details of amounts paid or payable to the auditor are outlined in note 10 to the consolidated financial statements.

Auditor's independence declaration

The auditor's independence declaration is included on page 19 of these consolidated financial statements.

Remuneration report (audited)

This remuneration report, which forms part of the Directors report, sets out information about the remuneration of MC Mining Limited's Directors and its senior management for the financial year ended 30 June 2021. The prescribed details for each person covered by this report are detailed below under the following headings:

- Director details;
- Remuneration policy;
- Relationship between the remuneration policy and company performance;
- Remuneration of Directors and senior management; and
- Key terms of employment contracts.

The Board is responsible for establishing remuneration packages applicable to the Board members of the Company. The policy adopted by the Board is to ensure that remuneration properly reflects an individual's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest calibre.

Directors' remuneration packages are also assessed in the light of the condition of markets within which the Company operates, the Company's financial condition and the individual's contribution to the achievement of corporate objectives. Executive Directors are remunerated by way of a salary commensurate with their required level of service.

Total remuneration for all Non-Executive Directors, excluding share-based payments, as approved by shareholders at the November 2010 General Meeting, is not to exceed AUD1,000,000 per annum (USD749,520).

The Board has a Nomination and Remuneration Committee which was made up as follows: Mr Pryor (Chairman), Mr Mosehla and Mr Randazzo. The Company does not have any scheme relating to retirement benefits for Executive or Non-Executive Directors.

Director and key management personnel details

The following persons acted as directors of the Company during or since the end of the financial year:

- B Pryor Independent Chairman
 - S Randazzo⁽¹⁾ Interim Chief Executive Officer and Executive Director
 - B Berlin⁽²⁾ Acting Chief Executive Officer and Executive Director
 - A Chee Sin Non-Executive Director
 - A Mifflin Independent Non-Executive Director
 - H Zhen Non-Executive Director
 - K Mosehla Independent Non-Executive Director
 - S Ding Non-Executive Director
1. *Appointed as Interim Chief Executive Officer and Executive Director on 15 February 2021, previously Non-Executive Director*
 2. *Resigned on 15 February 2021*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Apart from the Executive Directors, no employees satisfy the definition of 'key management' to be separately disclosed in this remuneration report.

Remuneration policy

The remuneration policy of MC Mining has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board of MC Mining believes the remuneration policy to be appropriate and effective in its ability to attract and retain management personnel to run and manage the Group, as well as create goal congruence between Directors, management and shareholders.

The Board's policy for determining the nature and amount of remuneration for management personnel of the Group is as follows:

- The remuneration structure is developed by the Nomination and Remuneration Committee and approved by the Board after professional advice is periodically sought from independent external consultants.
- Management personnel receive a base salary (based on factors such as length of service and experience), performance rights and performance incentives.
- Incentives paid in the form of cash and performance rights are intended to align the interests of the Directors, management and the Company with those of the shareholders.

The Nomination and Remuneration Committee reviews senior management personnel packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

The performance of senior management personnel is measured against criteria agreed annually with each executive and bonuses and incentives are linked to predetermined performance criteria. The performance criteria vary and are determined in line with each individual's performance contract. The Board may, however, exercise its discretion in relation to approving incentives, bonuses, options or performance rights, and can recommend changes to the Nomination and Remuneration Committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

All remuneration paid to management personnel is valued at the cost to the Company and expensed.

The Board's policy is to remunerate Non-Executive Directors at market rates for time, commitment and responsibilities. Shareholder nominee Non-Executive Directors are not remunerated. The Nomination and Remuneration Committee determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees, excluding share-based payments that can be paid to Non-executive Directors is AUD1,000,000 (USD749,520).

To assist Directors with independent judgement, it is the Board's policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval from the Chairman for incurring such expense, the Company will pay the reasonable expenses associated with obtaining such advice.

Options granted under the Employee Share Option Plan do not carry dividend or voting rights. Options are valued using a binomial option pricing model and the Black-Scholes option pricing model was used to validate the price calculated.

The Company has a shareholder approved performance rights plan (the "Plan") to assist in the reward, retention and motivation of eligible employees and to align the interest of eligible employee with the shareholders of the Company. Prior to a performance right being exercised, the performance grants do not carry any dividend or voting rights. Performance rights are granted for no consideration and no exercise price is payable upon exercise of the performance rights.

Apart from the special incentive performance rights granted during the year, the performance rights proposed to be granted are subject to the following vesting conditions:

- Vesting of the performance rights will be subject to a hurdle rate based the South African Consumer Price Index plus five percent ("Hurdle Rate").
- The Hurdle Rate will be compounded annually over the three-year period but will be measured annually to determine whether one third of the performance grants are cancelled or earned.
- The Hurdle Rate is a measure of the increase in the Company's share price and is a target for the total shareholders return ("TSR").
- The base price for the TSR calculation will be the volume weighted average price ("VWAP") of shares over the 30 days prior to the grant date.
- The end price for the TSR calculation will be the VWAP over the last 30 days of the Performance Period.

The special incentive performance rights were granted to certain employees of the company in the form of MC Mining shares. The incentive shares will vest in full on the hot commissioning of the Vele Colliery plant. If the hot commissioning does not take place before 31 March 2022, the incentive shares will lapse.

Performance-based remuneration

The key performance indicators (KPIs) are set annually, which includes consultation with management personnel to ensure buy-in. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential to position the Group for future expansion and profit, covering financial and non-financial as well as short and long-term goals.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved.

Hedging of Management Remuneration

No member of executive management entered into an arrangement during or since the end of the financial year to limit the risk relating to any element of that person's remuneration.

Relationship between remuneration policy and Company performance

The tables below set out summary information about the Group's earnings and movements in shareholder wealth for the five years to June 2021.

	Year ended 30 June 2021 \$'000	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
Revenue	20,702	17,155	26,403	32,693	-
Net loss before tax from continuing operations	12,107*	12,850*	33,522*	97,043*	17,662
Net loss after tax from continuing operations	11,837	12,190	33,726	103,763	17,367
Share price at start of year ⁽¹⁾	A\$0.13	A\$0.67	A\$0.36	A\$0.05	A\$0.06
Share price at end of year	A\$0.10	A\$0.13	A\$0.67	A\$0.36	A\$0.05
Basic and diluted loss per share (\$ cents) from continuing operations	7.76*	8.55*	23.72*	73.54*	17.26

**includes net impairment expense of \$6,759 thousand (2020: includes at \$1,257 thousand impairment expense (FY2019: includes the \$23,268 thousand impairment of the Makhado Project consolidated exploration asset) (2018: includes the \$87,475 thousand impairment of the Vele Colliery assets)*

⁽¹⁾ The share price at the start of the 2018 year is prior to the share consolidation that took place in December 2017.

Remuneration of directors and key management personnel

Details of the nature and amount of each major element of the remuneration of each director are:

	Short term employee benefits			Post-employment benefits		Share-based payments	Total	Share based % of Total
2021	Salary and fees	Bonus	Non - monetary benefits	Super-annuation	Termination benefits	Options / Shares		
	\$	\$	\$	\$	\$	\$	\$	%
Non-Executive Directors								
B Pryor ⁽¹⁾	74,112	-	-	-	-	-	74,112	-
A Chee Sin	-	-	-	-	-	-	-	-
A Mifflin ⁽¹⁾	46,490	-	-	-	-	-	46,490	-
H Zhen	-	-	-	-	-	-	-	-
K Mosehla ⁽¹⁾	47,142	-	-	-	-	-	47,142	-
S Randazzo ^(1,2)	30,069	-	-	2,778	-	-	32,847	-
S Ding	-	-	-	-	-	-	-	-
Executive Directors								
S Randazzo ⁽²⁾	133,531	-	-	-	-	-	133,531	-
B Berlin ⁽³⁾	255,461	-	-	-	-	(241,845)	13,616	-
	586,805	-	-	2,778	-	(241,845)	347,738	-

1. The second, third and fourth quarter fees were accrued but not paid in the 2021 financial year
2. Mr Randazzo was appointed as Interim Chief Executive Officer and Executive Director on 15 February 2021.
3. Ms Berlin resigned on 15 February 2021 and all performance rights granted were forfeited.

No director appointed during the period received a payment as part of his consideration for agreeing to hold the position.

MC MINING LIMITED
DIRECTORS' REPORT

	Short term employee benefits			Post-employment benefits		Share-based payments	Total	Share based % of Total
2020	Salary and fees	Bonus	Non - monetary benefits	Super-annuation	Termination benefits	Options / Shares		
	\$	\$	\$	\$	\$	\$	\$	%
Non-Executive Directors								
B Pryor ⁽¹⁾	69,326	-	-	-	-	-	69,326	-
A Chee Sin	-	-	-	-	-	-	-	-
A Mifflin ⁽¹⁾	44,447	-	-	-	-	-	44,447	-
H Zhen	-	-	-	-	-	-	-	-
K Mosehla ⁽¹⁾	44,941	-	-	-	-	-	44,941	-
P Cordin	15,291	-	-	1,453	-	-	16,744	-
S Randazzo ⁽¹⁾	44,154	-	-	4,195	-	-	48,349	-
S Ding	-	-	-	-	-	-	-	-
T Mosololi	20,975	-	-	-	-	-	20,975	-
Executive Directors								
D Brown	242,185	218,790	-	-	171,804 ⁽²⁾	-(3)	632,779	-
B Berlin	356,093	186,615	-	-	-	84,203 ⁽³⁾	626,911	13
	837,412	405,405	-	5,648	171,804	84,203	1,504,472	6

1. The third and fourth quarter fees were accrued for but not paid in the 2020 financial year
2. Mr Brown resigned on 31 January 2020 and in lieu of his six-month notice period, 208,537 shares have been issued to him, being one-third of the 2017 performance rights granted to him (\$130,944). These shares issued cannot be disposed of for a period of one year until 31 January 2021.
3. This is a non-cash cost expensed as employee costs. The non-cash costs for Mr Brown were reversed due to his resignation.

No director appointed during the period received a payment as part of his consideration for agreeing to hold the position.

In October 2019, performance bonuses of \$405 thousand were paid out in relation to certain performance targets met for the 2019 financial year. The performance targets were based on a combination of individual performance and corporate key performance indicators including; safety, operational targets and progression of raising funding for Phase 1 of the Makhado project.

Share-based payments granted as compensation for the current financial year

During the financial year, no share-based payment arrangements existed.

MC MINING LIMITED
DIRECTORS' REPORT

The following grants of share-based payment compensation to executive management personnel relate to the current financial year:

Name	Option series	During the financial year					% of compensation for the year consisting of options
		Number granted	Number vested	% of grant vested	% of grant forfeited		
B Berlin ⁽¹⁾	Special incentive	761,237	-	-	100%		N/A
B Berlin ⁽¹⁾	Performance grant	3,045,728	-	-	100%		N/A

⁽¹⁾ Ms Berlin forfeited the performance rights due to her resignation on 15 February 2021.

During the year, none of the executive management personnel exercised performance rights granted to them as part of their compensation.

Key terms of employment contracts

The Company has entered into formal contractual employment agreements with the Chief Executive Officer who is an Executive Director of the Company. There are no formal contractual employment agreements with any other member of the Board. The employment conditions of the Chief Executive Officer are:

Current

1. Mr Randazzo was appointed as Interim Chief Executive Officer on 15 February 2021 with an annual remuneration of ZAR5,534 thousand and a six-month notice period. Mr Randazzo does not hold any Performance Rights.

Loans from Key Management Personnel

No loans were provided to or received from Key Management Personnel during the year ended 30 June 2021.

Other Transactions

No other transactions were entered into with any member of Key Management Personnel other than those detailed in this Remuneration Report.

Director equity holdings

Option holdings

No options exist as at 30 June 2021.

The movement during the reporting period in the number of performance grants over ordinary shares exercisable in three years' time subject to performance criteria, held directly, indirectly or beneficially by each director including their personally-related entities, is as follows:

MC MINING LIMITED
DIRECTORS' REPORT

	Held at 1 July 2020	Granted as remuneration	Exercised	Expired/Other changes	Held at 30 June 2021
Non-Executive Directors					
B Pryor	-	-	-	-	-
A Chee Sin	-	-	-	-	-
A Mifflin	-	-	-	-	-
H Zhen	-	-	-	-	-
K Mosehla	-	-	-	-	-
S Ding	-	-	-	-	-
Executive Directors					
S Randazzo	-	-	-	-	-
B Berlin ⁽¹⁾	1,371,775	3,806,965	-	(5,178,740)	-

⁽¹⁾ All performance rights granted to Ms Berlin were forfeited due to her resignation on 15 February 2021.

The movement during the reporting period in the number of ordinary shares held, directly, indirectly or beneficially by each director including their personally-related entities, is as follows:

	Held at 1 July 2020	Granted as remuneration	Exercised	Expired/Other changes	Held at 30 June 2021
Non-Executive Directors					
B Pryor	7,500	-	-	-	7,500
A Chee Sin	-	-	-	-	-
A Mifflin	-	-	-	-	-
H Zhen	-	-	-	-	-
K Mosehla	-	-	-	-	-
S Ding	-	-	-	-	-
Executive Directors					
S Randazzo	-	-	-	-	-
B Berlin ⁽¹⁾	-	-	-	-	-

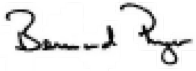
⁽¹⁾ Resigned on 15 February 2021.

This marks the end of the remuneration report.

MC MINING LIMITED
DIRECTORS' REPORT

This directors' report is signed in accordance with a resolution of directors made pursuant to s298(2) of the Corporations Act 2001.

On behalf of the Directors



Bernard Robert Pryor

Chairman

30 September 2021



Sam Randazzo

Interim Chief Executive Officer

30 September 2021



Auditor's Independence Declaration

As lead auditor for the audit of MC Mining Limited for the year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit, and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of MC Mining Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Douglas Craig'.

Douglas Craig
Partner
PricewaterhouseCoopers

Perth
30 September 2021

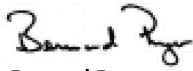
MC MINING LIMITED
DIRECTORS' DECLARATION

The directors declare that:

- a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- b) in the directors' opinion, the attached consolidated financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1.1 to the consolidated financial statements;
- c) in the directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Consolidated Entity; and
- d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



Bernard Pryor

Chairman

30 September 2021



Sam Randazzo

Interim Chief Executive Officer

30 September 2021

MC MINING LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 30 June 2021

	Note	Year ended 30 June 2021 \$'000	Year ended 30 June 2020 \$'000
Continuing operations			
Revenue	5	20,702	17,155
Cost of sales	6	(20,302)	(18,269)
Gross profit/(loss)		400	(1,114)
Other operating income	7	176	192
Other operating gains /(losses)	8	757	(184)
Net impairment expense	9	(6,759)	(1,257)
Administrative expenses	10	(5,250)	(7,578)
Operating loss		(10,676)	(9,941)
Interest income		187	250
Finance costs	11	(1,618)	(3,159)
Loss before tax		(12,107)	(12,850)
Income tax benefit/(expense)	12	270	660
Net loss for the year from continuing operations		(11,837)	(12,190)
LOSS FOR THE YEAR		(11,837)	(12,190)
Other comprehensive loss, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		18,404	(20,742)
Total comprehensive loss for the year		6,567	(32,932)
Loss for the year attributable to:			
Owners of the Company		(11,744)	(12,048)
Non-controlling interests		(93)	(142)
		(11,837)	(12,190)
Total comprehensive loss attributable to:			
Owners of the Company		6,660	(32,790)
Non-controlling interests		(93)	(142)
		6,567	(32,932)
Loss per share	13		
From continuing operations and discontinued operations			
Basic and diluted (cents per share)		(7.76)	(8.55)
From continuing operations			
Basic and diluted (cents per share)		(7.76)	(8.55)

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

MC MINING LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2021

	Note	30 June 2021 \$'000	30 June 2020 \$'000
ASSETS			
Non-current assets			
Exploration and evaluation assets	14	93,467	78,714
Development assets	15	19,055	20,720
Property, plant and equipment	16	27,370	24,396
Right-of-use assets	17	2,588	1,819
Other financial assets	19	4,708	3,743
Restricted cash	22	95	57
Total non-current assets		<u>147,283</u>	<u>129,449</u>
Current assets			
Inventories	20	834	1,109
Trade and other receivables	21	3,430	1,311
Tax receivable		4	162
Cash and cash equivalents	22	<u>3,226</u>	<u>2,678</u>
Total current assets		<u>7,494</u>	<u>5,260</u>
Assets classified as held for sale		<u>-</u>	<u>274</u>
Total assets		<u>154,777</u>	<u>134,983</u>
LIABILITIES			
Non-current liabilities			
Deferred consideration	23	-	2,220
Borrowings	24	251	566
Provisions	25	6,689	4,996
Deferred tax liability	26	4,669	4,078
Lease liabilities	27	<u>1,557</u>	<u>1,622</u>
Total non-current liabilities		<u>13,166</u>	<u>13,482</u>
Current liabilities			
Current deferred consideration	23	2,796	101
Current borrowings	24	19,231	13,029
Trade and other payables	28	9,394	6,463
Bank overdraft	22	2,203	2,214
Current provisions	25	195	197
Current tax liabilities		413	341
Current lease liabilities	27	<u>855</u>	<u>213</u>
Total current liabilities		<u>35,087</u>	<u>22,558</u>
Total liabilities		<u>48,253</u>	<u>36,040</u>
NET ASSETS		<u>106,524</u>	<u>98,943</u>
EQUITY			
Issued capital	29	1,041,884	1,041,080
Accumulated deficit	30	(907,202)	(895,591)
Reserves	31	<u>(27,437)</u>	<u>(45,918)</u>
Equity attributable to owners of the Company		<u>107,245</u>	<u>99,571</u>
Non-controlling interests	33	<u>(721)</u>	<u>(628)</u>
TOTAL EQUITY		<u>106,524</u>	<u>98,943</u>

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

MC MINING LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2021

	Issued capital	Accumulated deficit	Share based payment reserve	Capital profits reserve	Warrants reserve	Foreign currency translation reserve	Attributable to owners of the parent	Non-controlling interests	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2020	1,041,080	(895,591)	1,460	91	1,134	(48,603)	99,571	(628)	98,943
Total comprehensive loss for the year	-	(11,744)	-	-	-	18,404	6,660	(93)	6,567
Loss for the year	-	(11,744)	-	-	-	-	(11,744)	(93)	(11,837)
Other comprehensive loss, net of tax	-	-	-	-	-	18,404	18,404	-	18,404
Performance grants issued to employees	-	-	589	-	-	-	589	-	589
Share options expired	-	133	(133)	-	-	-	-	-	-
Share options forfeited	-	-	(422)	-	-	-	(422)	-	(422)
Shares issued	869	-	-	-	-	-	869	-	869
Share issue costs	(65)	-	-	-	-	-	(65)	-	(65)
Warrants issued to IDC	-	-	-	-	43	-	43	-	43
Balance at 30 June 2021	1,041,884	(907,202)	1,494	91	1,177	(30,199)	107,245	(721)	106,524
Balance at 1 July 2019	1,040,950	(884,297)	2,234	91	1,134	(28,060)	132,052	89	132,141
Total comprehensive loss for the year	-	(12,048)	-	-	-	(20,543)	(32,591)	(717)	(33,308)
Loss for the year	-	(12,048)	-	-	-	-	(12,048)	(142)	(12,190)
Freewheel de-recognised	-	-	-	-	-	199	199	(575)	(376)
Other comprehensive loss, net of tax	-	-	-	-	-	(20,742)	(20,742)	-	(20,742)
Performance grants issued to employees	-	-	769	-	-	-	769	-	769
Share options expired	-	754	(754)	-	-	-	-	-	-
Share options forfeited	-	-	(658)	-	-	-	(658)	-	(658)
Shares issued	131	-	(131)	-	-	-	-	-	-
Share issue costs	(1)	-	-	-	-	-	(1)	-	(1)
Balance at 30 June 2020	1,041,080	(895,591)	1,460	91	1,134	(48,603)	99,571	(628)	98,943

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

MC MINING LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June 2021

	Note	Year ended 30 June 2021 \$'000	Year ended 30 June 2020 \$'000
Cash flows from operating activities			
Receipts from customers		21,983	20,950
Payments to suppliers and employees		(23,400)	(26,000)
Cash generated/ (used) in operations	35	(1,417)	(5,050)
Interest received		122	250
Interest paid		(240)	(137)
Tax refund		182	-
Net cash used in operating activities		(1,353)	(4,937)
Cash flows from investing activities			
Purchase of property, plant and equipment	16	(246)	(569)
Proceeds from the sale of property, plant and equipment		487	1,719
Investment in development assets	15	(4)	(5)
Investment in exploration assets	14	(99)	(1,266)
Khethekile acquisition - deferred consideration payment	23	-	(271)
Pan African Resources deferred consideration payment		-	(1,004)
Bio-diversity off-set agreement payment		-	(84)
(Increase)/ Decrease in other financial assets	19	16	320
Net cash generated from /(used in) investing activities		154	(1,160)
Net cash generated from/ (used) in financing activities			
Borrowings repayments	24	(457)	(360)
Proceeds received from borrowings	24	2,347	-
Proceeds from the issue of new shares		804	-
Lease repayments		(1,039)	(994)
Net cash generated from /(used in) financing activities		1,655	(1,354)
Net increase/ (decrease) in cash and cash equivalent		456	(7,451)
Net foreign exchange differences		103	(896)
Cash and cash equivalents at beginning of the year		464	8,811
Cash and cash equivalents at the end of the year	22	1,023	464

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

MC MINING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2021

1. GENERAL INFORMATION

MC Mining Limited ("MCM" or the "Company") is a limited company incorporated in Australia. Its common shares are listed on the Australian Securities Exchange plc ("ASX"), the AIM market of the London Stock Exchange ("AIM") and the Johannesburg Securities Exchange ("JSE") in South Africa. The addresses of its registered office and principal places of business is Suite 8, 7 The Esplanade, Mt Pleasant, Perth, Western Australia 6000.

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

The Group's principal assets and projects include:

- The operating mine, Uitkomst Colliery;
- The Makhado hard coking and thermal coal project that has been granted a mining right ("MR"), an integrated water use licence ("IWUL") and an environmental authorisation;
- The Vele Colliery, a semi soft coking and thermal coal mine, currently under care and maintenance.
- 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 2021 of \$11,837 thousand (30 June 2020: loss of \$12,190 thousand). During the year ended 30 June 2021, net cash outflows from operating activities were \$1,353 thousand (30 June 2020 net outflow: \$4,937 thousand). As at 30 June 2021 the Consolidated Entity had a net current liability position of \$27,593 thousand (30 June 2020: net current liability position of \$17,298 thousand).

After the reporting period, the termination date of the \$8,386 thousand (ZAR120,000 thousand) tranche 1 and \$2,795 thousand (ZAR40,000 thousand) tranche 2 IDC loan facilities were extended to 31 January 2022. The IDC also agreed to extend the terminal drawdown date in respect of the conditional \$17,121 thousand (ZAR245,000 thousand) term loan agreed to partially finance the development of Phase 1 of the Makhado Project, to 31 January 2022, subject to the IDC reaffirming its financial due diligence.

The directors have prepared a cash flow forecast for the eighteen-month period ended 31 December 2022, taking into account available facilities, additional funding that is expected to be raised and expected cash flows to be generated by Uitkomst, which indicates that the Group will have sufficient cash to fund their operations for at least the twelve-month period from the date of signing this report.

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

- Meeting commitments to creditors arising from continuing operations;
- Deferring the settlement over time of the existing IDC loan (plus accrued interest) to when Makhado Phase 1 is at steady state production as opposed to being payable in January 2022 (refer note 24) and/or converting this facility to equity;
- A drawdown of the new IDC term facility of \$17,121 thousand (ZAR245,000 thousand);
- Contractor funding including a build, own, operate, transfer ("BOOT") arrangement of \$4,193 thousand (ZAR60,000 thousand);
- The issue of new equity for cash in the Company to current & new shareholders; and
- In addition to the \$17,121 thousand (ZAR245,000 thousand) new IDC term loan facility and \$4,193 thousand (ZAR60,000 thousand) BOOT arrangement referred to above, further funding of approximately \$29,909 thousand (ZAR428,000 thousand) is required ("Additional Funding") to finance the development of Phase 1 of the Makhado Project, through either debt or equity raise.

The Group is in negotiations with the IDC on the deferral of the existing loan repayment, this may have an impact on the drawdown of the new facility. This is due to the new facility being subject to certain conditions precedent which are still to be met, one of which is the settlement of the current facility. In addition, draw down on the conditional \$17,121 thousand (ZAR245,000 thousand) term loan is subject to the IDC reaffirming its financial due diligence for the Makhado project.

1. GENERAL INFORMATION (Continued)

The Group is exploring and progressing several alternatives to raise the Additional Funding including, but not limited to:

- The issue of new equity for cash in the Company to current and new shareholders, of which the Group has a demonstrated history of success;
- The issue of new equity for cash in subsidiary companies which own the Makhado project;
- Further debt funding;
- Further contractor BOOT funding arrangements; and
- The sale of a minority stake in the subsidiary companies holding the Makhado Project.

The conclusion of the debt and equity raise funding initiatives as included in the cash flow forecast and for purposes of obtaining the Additional Funding as outlined above, and renegotiations with the IDC on current and further funding, is by its nature an involved process subject to successful negotiations with the external funders and shareholders. In addition, any equity raise is likely to be subject to a due diligence process.

These conditions create a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

The Directors are of the opinion that the going concern basis remains appropriate as a result of the following considerations:

- The Group is already in discussions with the IDC on the deferral of the settlement of the existing loan and the restructuring of the new facility;
- The Group has a history of successful capital raisings to meet the Group's funding requirements; and
- The Group has the capacity if necessary to reduce its operating cost structure in order to minimise its working capital requirements and defer the timing of any future capital raising.

Subject to raising the Additional Funding, the development of Phase 1 of the Makhado project will subsequently commence within the twelve months following the signing of these annual financial statements.

Based on the above, the directors are satisfied at the date of signing the annual financial statements that there are reasonable grounds to believe that they will be successful in obtaining the required funding and that the Group will have sufficient funds to meet its obligations as and when they fall due and are of the opinion that the use of the going concern basis remains appropriate.

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

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 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The consolidated financial statements were authorised for issue by the Directors on 30 September 2021.

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.

1. GENERAL INFORMATION (Continued)

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- 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; and
- 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; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

2. ACCOUNTING POLICIES (Continued)

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

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

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

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

2.2. Business combinations

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

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

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

- deferred tax assets or liabilities are recognised and measured in accordance with AASB 112 'Income Taxes';
- assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 119 'Employee Benefits';
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 'Share-based Payment' at the acquisition date; and
- 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

2. ACCOUNTING POLICIES (Continued)

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; and
- 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. ACCOUNTING POLICIES (Continued)

2.4. Non-current assets held for sale

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

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

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

2.5. Exploration and evaluation expenditure

(i) Pre-licence costs

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

(ii) Exploration and evaluation expenditure

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

Exploration and evaluation activity includes:

- (i) Researching and analysing historical exploration data
- (ii) Gathering exploration data through geophysical studies
- (iii) Exploratory drilling and sampling
- (iv) Determining and examining the volume and grade of the resource
- (v) Surveying transportation and infrastructure requirements
- (vi) Conducting market and finance studies

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

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

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

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

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

2. ACCOUNTING POLICIES (Continued)

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

2.6. Development assets

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

No depreciation is recognised in respect of development assets.

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

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

2.7. Property, plant and equipment – Mining property

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

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

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

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

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

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

2.8. Deferred stripping costs

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

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

Where a mine operates more than one open pit that is regarded as a separate operation for the purpose of mine planning, stripping costs are accounted for separately by reference to the ore from each separate pit. If, however, the pits are highly integrated for the purpose of the mine planning, the second and subsequent pits are regarded as

2. ACCOUNTING POLICIES (Continued)

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.

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

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

Freehold land is stated at cost and is not depreciated.

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

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

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

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

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

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

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

2.11. Intangible assets, excluding goodwill

An intangible asset is recognised at cost if it is probable that future economic benefits will flow to the Group and the cost can be reliably measured. The cost of intangible assets acquired in a business combination is their fair value at the

2. ACCOUNTING POLICIES (Continued)

date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

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

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

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

2.12. Impairment of tangible and intangible assets other than goodwill

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

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

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

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

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

2.13. Leasing

The group adopted AASB 16 *Leases* retrospectively from 1 July 2019 as permitted under the specific transition provisions in the standard. On adoption of AASB 16, the group recognised lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 12%.

For leases previously classified as finance leases, the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of AASB 16 are only applied after that date.

(i) Practical expedients applied

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

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

2. ACCOUNTING POLICIES (Continued)

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

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2021 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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.

2.17. Financial instruments

Financial instruments held by the Group are classified in accordance with the provisions of AASB 9 Financial Instruments.

2. ACCOUNTING POLICIES (Continued)

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).

2. ACCOUNTING POLICIES (Continued)

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 (i.e., 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,

2. ACCOUNTING POLICIES (Continued)

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.

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

Financial Guarantee Contracts

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

The entity recognizes 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.

2. ACCOUNTING POLICIES (Continued)

- 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 black economic empowerment ("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.

2. ACCOUNTING POLICIES (Continued)

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.

2.22. Revenue recognition

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

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

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

- The entity has a present right to payment for the coal sold
- The customer has legal title to the coal sold
- The entity has transferred physical possession of the coal sold

2. ACCOUNTING POLICIES (Continued)

- 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.

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

3. CRITICAL ACCOUNTING ESTIMATES AND KEY JUDGEMENTS (Continued)

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; and
- 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. Greater Soutpansberg Project, Makhado Project). 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 (HCC) price (real US\$ per ton)	\$125	(i)
Thermal coal price (real US\$ per ton)	\$70	(ii)
Rand/US\$ exchange rate	15.06	(iii)
Real discount rates	10% - 14%	(iv)
<i>In situ</i> resource multiple valuation range (Rand per ton)	ZAR1 - ZAR5	(v)

- (i) 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 \$115 per tonne and \$135 per ton, with a base case of \$125 per tonne.
- (ii) Estimated with reference to the forward curve for API4 thermal coal free-on-board Richards Bay. Management's models considered a real long-term thermal coal price range of between \$60 per tonne and \$80 per tonne, with a base case of \$70 per tonne.

3. CRITICAL ACCOUNTING ESTIMATES AND KEY JUDGEMENTS (Continued)

- (iii) Estimated with reference to the prevailing exchange rates and consensus outlooks. Management's models considered a Rand vs US Dollar exchange rate range of between R14.30 and R15.80 with a base case of R15.06.
- (iv) Post-tax real discount rates that reflect management's assessments of market conditions and risks specific to the various projects. Management's models considered between 10% and 12% for established and producing projects and between 12% and 14% for developing and future projects, with a base case of 10.7% for established and producing projects and between 12% and 14% for developing and future projects.
- (v) Based on historic 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 prices	+10%	N/A	4	41	(i)
	-5%	N/A	(2)	(21)	
Long-term thermal prices	+7.5%	5	6	16	(ii)
	-7.5%	(5)	(6)	(16)	
Long-term exchange rate	+6%	4	7	35	(iii)
	-3%	(2)	(4)	(18)	
Discount rate	+1%	(1)	(2)	(13)	(iv)
	-1%	1	3	15	

- (i) Keeping all other inputs constant, this sensitivity scenario would not result in an impairment charge for the Makhado Project but the Vele Colliery would incur an impairment charge of \$1,800 thousand.
- (ii) Keeping all other inputs constant, this sensitivity scenario would result in an impairment charges of \$1,500 thousand for the Uitkomst Colliery and \$6,300 thousand for the Vele Colliery with no impairment charge for the Makhado Project.
- (iii) Keeping all other inputs constant, this sensitivity scenario would result in an impairment charge of \$3,600 thousand for the Vele Colliery, with no impairment charges for the Uitkomst Colliery or the Makhado Project.
- (iv) Keeping all other inputs constant, this sensitivity scenario would result in an impairment charge of \$2,300 thousand for the Vele Colliery, with no impairment charges for the Uitkomst Colliery or the Makhado Project

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

Hard coking coal (HCC) price (real US\$ per ton)	\$130	(i)
Thermal coal price (real US\$ per ton)	\$65	(ii)
Rand/US\$ exchange rate	15.50	(iii)
Real discount rates	8% - 11%	(iv)
<i>In situ</i> resource multiple valuation range (SA Rand per ton)	ZAR1- ZAR5	(v)

3. CRITICAL ACCOUNTING ESTIMATES AND KEY JUDGEMENTS (Continued)

- (i) 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 \$10 per tonne, with a base case of \$130 per tonne.
- (ii) 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 \$60 per ton and \$70 per ton, with a base case of \$65 per tonne.
- (iii) Estimated with reference to the prevailing exchange rates. Management's models considered a Rand vs US Dollar exchange rate range of between R15.00 and R16.50 with a base case of R15.50.
- (iv) 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.
- (v) 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 (prior year)

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

- (i) Keeping all other inputs constant, this sensitivity scenario would not result in an impairment at either the Vele Colliery or the Makhado Project.
- (ii) Keeping all other inputs constant, this sensitivity scenario would result in an impairment charge of \$3,500 thousand for the Uitkomst Colliery with no impairment charges for the Vele Colliery or the Makhado Project.
- (iii) Keeping all other inputs constant, this sensitivity scenario would result in an impairment charge of \$1,000 thousand for the Uitkomst Colliery, with no impairment charges for the Vele Colliery or the Makhado Project.
- (iv) Keeping all other inputs constant, this sensitivity scenario would result in an impairment charge of \$1,000 thousand for the Uitkomst Colliery, with no impairment charges for the Vele Colliery or the Makhado Project.

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.

3. CRITICAL ACCOUNTING ESTIMATES AND KEY JUDGEMENTS (Continued)

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

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

- asset carrying values may be affected due to changes in estimated future cash flows; 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 life of mine (which is based on coal reserves noted above);
- the application of relevant environmental legislation; and
- the appropriate rate at which to discount the liability.

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

3.4 Non-current assets held for sale and discontinued operations

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

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

4. SEGMENT INFORMATION

The Group has three reportable segments: Exploration, Development and Mining.

The Exploration segment is involved in the search for resources suitable for commercial exploitation, and the determination of the technical feasibility and commercial viability of resources. As of 30 June 2021, 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 the Makhado 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 2021, the only project included within this reportable segment is the Vele Colliery, in the early operational and development stage.

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

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4. SEGMENT INFORMATION (Continued)

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

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

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

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

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

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 2021

	Exploration	Development	Mining	Total
Revenue	-	-	20,702	20,702
Cost of sales	-	-	(20,302)	(20,302)
Gross profit	-	-	400	400
Other income	21	74	63	158
Other operating (losses)/gains	(7)	-	64	57
Net Impairment expense	(434)	(6,325)	-	(6,759)
Administrative expenses	(650)	(609)	(109)	(1,368)
Operating (loss)/profit	(1,070)	(6,860)	418	(7,512)
Interest income	26	-	38	64
Finance costs	(656)	(384)	(553)	(1,593)
Loss before tax	(1,700)	(7,244)	(97)	(9,041)
Income tax charge	-	-	270	270
Segment net (loss)/ profit after tax	(1,697)	(7,244)	173	(8,771)
Segment assets	86,031	31,337	31,418	148,786
Items included in the Group's measure of segment assets				
- Addition to non-current assets	448	4	332	784
Segment liabilities	(26,513)	(5,626)	(14,976)	(47,115)

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4. SEGMENT INFORMATION (Continued)

For the year ended 30 June 2020

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

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

	30 June 2021 \$'000	30 June 2020 \$'000
Total loss for reportable segments	(8,871)	(6,609)
Reconciling items:	-	
Other operating income	18	55
Other operating gains/(losses)	700	-
Administrative expenses	(3,882)	(5,862)
Interest income	123	227
Finance costs	(25)	(1)
Loss for the year	(11,837)	(12,190)

MC MINING LIMITED
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4. SEGMENT INFORMATION (Continued)

	30 June 2021	30 June 2020
	\$'000	\$'000
Total segment assets	148,786	129,086
Reconciling items:		
Unallocated property, plant and equipment	1,201	225
Other financial assets	4,469	3,233
Other receivables	-	65
Unallocated current assets	321	2,374
Total assets	154,774	134,983
Total segment liabilities	(47,115)	(35,072)
Reconciling items:		
Unallocated liabilities	(1,138)	(968)
Total liabilities	(48,253)	(36,040)

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

	30 June 2021	30 June 2020
	\$'000	\$'000
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.		
Revenue by location of operations		
South Africa	20,702	17,155
Total revenue	20,702	17,155
Non-current assets by location of operations		
South Africa	147,283	129,449
Total non-current assets	147,283	129,449

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.

	30 June 2021	30 June 2020
	\$'000	\$'000
Revenue from contracts with customers		
Sale of coal	20,524	16,707
Transport and other	177	448
	20,702	17,155
Disaggregation of revenue by location of customers		
South Africa	20,702	17,155
	20,702	17,155

MC MINING LIMITED
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6. COST OF SALES

Cost of sales consists of:

	30 June 2021 \$'000	30 June 2020 \$'000
Employee costs	(7,936)	(7,168)
Depreciation and amortisation	(2,533)	(2,494)
Inventory	(308)	273
Underground mining	(3,637)	(2,544)
Utilities	(748)	(638)
Human resources	(886)	(765)
Training	(41)	(62)
Wash plant	(288)	(333)
Administration	(1,101)	(1,422)
Environmental	(4)	(9)
Logistics	(266)	(487)
Engineering	(1,870)	(2,087)
Safety	(269)	(168)
Security	(275)	(247)
Royalties	(140)	(118)
	<u>(20,302)</u>	<u>(18,269)</u>

7. OTHER OPERATING INCOME

Other operating income includes:

	30 June 2021 \$'000	30 June 2020 \$'000
Rental income	4	45
Scrap sales	33	13
Insurance recoveries	-	73
Sundry income	139	61
	<u>176</u>	<u>192</u>

8. OTHER OPERATING GAINS/(LOSSES)

Other operating gains/(losses) include:

	30 June 2021 \$'000	30 June 2020 \$'000
Foreign exchange (loss)/gain		
- unrealized	255	(399)
- realized	(65)	(120)
Fair value adjustments	502	(127)
Loss on sale of assets	-	(123)
De-recognition of Freewheel non-controlling interest	-	575
Other	65	10
	<u>757</u>	<u>(184)</u>

MC MINING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2021

9. NET IMPAIRMENT EXPENSE

The net impairment expense includes:

	30 June 2021 \$'000	30 June 2020 \$'000
Impairment of Freewheel at acquisition asset recognised(i)	-	(1,804)
Development Assets (ii)	(6,759)	547
	<u>(6,759)</u>	<u>(1,257)</u>

- (i) The impairment arose on liquidation of Freewheel Trade and Invest 37 (Pty) Ltd.
- (ii) The impairment in the current year arose from the impairment of the Vele project of \$6,497 thousand and \$434 thousand relates to the impairment of a property held by Fumaria Property Holdings (Pty) Ltd following the granting of a call option for the purchase of the property. The option was granted to Dendocept (Pty) Ltd. FY2021 also includes an impairment reversal of \$172 thousand relating to the sale of a property held by Harrisia Investment Holdings (Pty) Ltd that was previously impaired.

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

10. ADMINISTRATIVE EXPENSES

	30 June 2021 \$'000	30 June 2020 \$'000
Employee expense	(2,315)	(3,939)
Depreciation	(89)	(114)
Professional fees	(208)	(203)
Legal expenses	(166)	(353)
Other overheads	(2,472)	(2,969)
	<u>(5,250)</u>	<u>(7,578)</u>

Included in administrative expenses is auditors' remuneration as follows:

Remuneration for audit and review of the financial report:

PWC – Australia	(72,000)	(87,000)
PWC – South Africa	(283,000)	(233,000)
	<u>(355,000)</u>	<u>(320,000)</u>

Non-audit related services performed:

PWC – Australia	-	(6,000)
	<u>-</u>	<u>(6,000)</u>

11. FINANCE COSTS

	30 June 2021 \$'000	30 June 2020 \$'000
Interest on borrowings	(621)	(2,159)
Unwinding of discount	(470)	(431)
Leases	(188)	(258)
Other	(339)	(311)
	<u>(1,618)</u>	<u>(3,159)</u>

MC MINING LIMITED
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12. INCOME TAX CHARGE

Income tax recognised in profit or loss from continuing operations

Current tax

	30 June 2021 \$'000	30 June 2020 \$'000
Tax expense in respect of the current year	-	-
Tax expense in respect of the prior year	-	(1)

Deferred tax (Note 26)

Current year deferred tax	234	610
Prior year deferred tax	36	51
Total income tax (expense)/credit recognised	270	660

The Group's effective tax rate for the year from continuing operations was 5.1% (2020: 5.1%). The tax rate used for the 2021 and 2020 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:

	30 June 2021 \$'000	30 June 2020 \$'000
Loss from continuing operations before income tax	(12,107)	(12,850)
Income tax benefit calculated at 30% (2020: 30%)	3,632	3,855
Tax effects of:		
Expenses that are not deductible for tax purposes	(3,044)	(2,558)
Differences in tax rates	(109)	(46)
Income not taxable	228	315
Other temporary differences not recognized	(603)	(1,385)
Other	130	429
Prior year adjustments	36	50
Income tax (expense)/credit	270	660

13. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

13.1. Basic loss per share

	30 June 2021 Cents per share	30 June 2020 Cents per share
From continuing operations	(7.76)	(8.55)
	(7.76)	(8.55)
Loss for the year attributable to owners of the Company	(11,745)	(12,048)
Loss used in the calculation of basic loss per share from continuing operations	(11,745)	(12,048)
Weighted number of ordinary shares		
	30 June 2021 shares	30 June 2020 shares
Weighted average number of ordinary shares for the purposes of basic loss per share	152,630	140,959

MC MINING LIMITED
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13. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY (Continued)

13.1. 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 2021, 2,408,752 warrants (2020 – 2,408,752 warrants), were excluded from the computation of the loss per share as their impact is anti-dilutive.

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

The calculation of headline loss per share at 30 June 2021 was based on the headline loss attributable to ordinary equity holders of the Company of \$4,986 thousand (2020: \$11,044 thousand) and a weighted average number of ordinary shares outstanding during the period ended 30 June 2021 of 152,629,856 (2020: 140,959,000).

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

	30 June 2021 \$'000	30 June 2020 \$'000
Loss for the period attributable to ordinary shareholders	(11,745)	(12,048)
Adjust for:		
Impairment expense (refer note 9)	6,931	1,804
Impairment reversal (refer note 9)	(172)	(547)
Loss/(profit) on disposal of property, plant and equipment	-	123
De-recognition of Freewheel non-controlling interest	-	(575)
Freewheel foreign currency translation reserve recognized	-	199
Headline earnings	(4,986)	(11,044)
<i>Headline loss per share (cents per share)</i>	<i>(3.33)</i>	<i>(7.83)</i>

14. EXPLORATION AND EVALUATION ASSETS

A reconciliation of exploration and evaluation assets is presented below:

	30 June 2021 \$'000	30 June 2020 \$'000
Exploration and evaluation assets		
Balance at beginning of year	78,714	94,871
Additions	451	1,266
Movement in Rehabilitation asset	17	(28)
Impairment	-	(1,804)
Foreign exchange differences	14,286	(15,591)
Balance at end of year	93,467	78,714

As of 30 June 2021, the net book value of the following project assets were classified as Exploration and Evaluation assets:

- Greater Soutpansberg Project: \$54,147 thousand
- Makhado Project: \$34,520 thousand
- Uitkomst North adit: \$343 thousand

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14. EXPLORATION AND EVALUATION ASSETS (Continued)

- Vele Colliery: \$5,194 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 & 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 2021 and performed a formal assessment and no impairment was required at 30 June 2021. In the prior year, no impairment was required.

The discount between the Group's market capitalisation and net asset value at 30 June 2021, prompted management to conclude that indicators of impairment for its Exploration and Evaluation assets exist as at 30 June 2021. A formal assessment was performed and no impairment was required at 30 June 2021. Details of the key assumptions used in the impairment assessment are set out in note 3.1. In the prior year, no impairment was required.

15. DEVELOPMENT ASSETS

A reconciliation of development expenditure is presented below:

Development assets

	30 June 2021 \$'000	30 June 2020 \$'000
Balance at beginning of year	20,720	26,919
Additions	4	5
Disposals	(466)	(502)
Movement in Rehabilitation asset	36	(530)
Reversal of impairment*	158	48
Impairment	(6,497)	-
Transfer to assets classified as held for sale	-	(274)
Foreign exchange differences	5,100	(4,946)
Balance at end of year	19,055	20,720

* The reversal of impairment in the prior year related to the sale of land that had previously been impaired.

As of 30 June 2021 the net book value of the following project assets was included in Development Assets:

- Vele Colliery: \$25,552 thousand

The discount between the Group's market capitalisation and net asset value at 30 June 2021, prompted management to perform an impairment assessment. Details of the key assumptions used in the impairment assessment are set out in note 3.1.

The redevelopment of the Vele Colliery is aligned with the timing of the Musina-Makhado SEZ in Limpopo and the forecast production date for the colliery is expected to commence in FY2030. 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 at 30 June 2021.

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 \$6,497 thousand was recognised during the year ended 30 June 2021.

In calculating the fair value less costs of disposal, management forecasted the cash flows associated with the project over its expected life of 14 years until 2043 based on the current life of mine model. The cash flows are estimated for

MC MINING LIMITED
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15. DEVELOPMENT ASSETS (Continued)

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 judgments. Details of the key assumptions used in the fair value less costs of disposal calculation at 30 June 2021 have been included below.

Assumptions

	Long-term (real)
Thermal coal price (USD per ton) ¹	70
Hard coking coal price (USD per ton) ²	125
Exchange rate (USD:ZAR)	15.06
Discount rate ³	14%
Production start date ⁴	FY2030

¹ Management's assumptions of the Richards Bay export thermal coal (API4) price was made after considering relevant broker forecasts

² Management's assumption of the hard coking coal price was made after considering relevant broker forecasts

³ Management prepared a real R-denominated, post-tax discount rate, which was calculated with reference to the Capital Asset Pricing Model

⁴ The production start date assumes that sufficient project finance is able to be raised by management in order to commence production in July 2029.

Impairment assessment

	US\$ '000
Carrying value of Vele cash generating unit	25,552
Recoverable value	(19,055)
Impairment expense (allocated to development assets)	6,497

Sensitivity analysis

Sensitivity	Change in variable %	Effect on fair value less costs of disposal (US\$'000)
Long-term HCC coal prices	+10%	3,618
	-5%	(1,824)
Long-term thermal coal prices	+7.5%	5,988
	-7.5%	(6,296)
Long-term exchange rates	+6%	6,927
	-3%	(3,573)
Discount rate	+1%	(2,324)
	-1%	2,713

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16. PROPERTY, PLANT AND EQUIPMENT

	Mining property, plant and equipment \$'000	Mining rights \$'000	Land and buildings \$'000	Leasehold improvements \$'000	Motor vehicle \$'000	Other \$'000	Total \$'000
30 June 2021							
Cost							
At beginning of year	6,050	15,257	7,511	100	830	1,323	31,071
Additions	136	-	68	-	43	-	247
Disposals	-	-	(34)	-	-	(1)	(35)
Rehabilitation asset	133	-	-	-	-	-	133
Impairment	-	-	(421)	-	-	-	(421)
Exchange differences	1,299	3,224	1,557	17	179	277	6,553
Cost at end of year	7,618	18,481	8,681	117	1,052	1,599	37,548
Accumulated depreciation							
At beginning of year	1,297	2,291	1,127	100	579	1,281	6,675
Depreciation charge	637	991	219	-	93	23	1,963
Accumulated depreciation on disposals	-	-	(14)	-	-	(1)	(15)
Exchange differences	325	560	253	17	129	271	1,555
Accumulated depreciation at end of year	2,259	3,842	1,585	117	801	1,574	10,178
Net carrying value at end of fiscal year 2021	5,359	14,639	7,096	-	251	25	27,370
	Mining property, plant and equipment \$'000	Mining rights \$'000	Land and buildings \$'000	Leasehold improvements \$'000	Motor vehicle \$'000	Other \$'000	Total \$'000
30 June 2020							
Cost							
At beginning of year	8,414	18,779	8,846	116	970	1,625	38,750
Additions	262	-	253	-	51	3	569
Disposals	-	-	(264)	-	-	(3)	(267)
Rehabilitation asset	(258)	-	-	-	-	-	(258)
Impairment reversal	-	-	82	-	-	-	82
Transfer to right-of-use assets	(1,011)	-	-	-	(31)	-	(1,042)
Transfer from right-of-use assets	37	-	-	-	24	-	61
Exchange differences	(1,394)	(3,522)	(1,406)	(16)	(184)	(302)	(6,824)
At end of year	6,050	15,257	7,511	100	830	1,323	31,071

MC MINING LIMITED
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16. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Mining property, plant and equipment	Mining rights	Land and buildings	Leasehold improvements	Motor vehicle	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Accumulated depreciation							
At beginning of year	882	1,873	1,036	116	616	1,514	6,037
Depreciation charge	648	859	219	-	87	58	1,871
Accumulated depreciation on disposals		-	-	-	-	(3)	(3)
Exchange differences	(233)	(441)	(128)	(16)	(124)	(288)	(1,230)
Accumulated depreciation at end of year	1,297	2,291	1,127	100	579	1,281	6,675
Net carrying value at end of fiscal year 2020	4,753	12,966	6,384	-	251	42	24,396

As of 30 June 2021 the net book value of the following operating asset was included in Property, Plant and Equipment:

- Uitkomst Colliery: \$21,570 thousand

The discount between the Group's market capitalisation and net asset value at 30 June 2021, prompted management to perform an impairment assessment.

Details of the key assumptions used in the impairment assessment are set out in note 3.1. The impairment charge for the year related to the Vele Colliery. No impairment charge was required for the Uitkomst Colliery at 30 June 2021.

17. RIGHT-OF-USE ASSETS

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

	30 June 2021 \$'000	30 Jun 2020 \$'000
Balance at beginning of the period	1,819	-
Impact of adopting AASB16 – 1 July 2019	-	1,893
Transfer from Property plant and equipment	-	1,042
Additions	95	162
Depreciation	(660)	(737)
Modification	922	-
Transfer to PPE	-	(60)
Foreign exchange differences	412	(481)
Balance at end of period	2,588	1,819

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18. OTHER RECEIVABLES

Carrying amount of:	30 June 2021 \$'000	30 June 2020 \$'000
Balance at beginning of year	-	219
Increase in receivable	-	17
Written-off	-	(179)
Foreign exchange differences	-	(57)
Balance at end of year	-	-

19. OTHER FINANCIAL ASSETS

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

	30 June 2021 \$'000	30 June 2020 \$'000
Listed securities		
- Equity securities	-	-
Unlisted securities		
- Equity securities in investment funds*	4,687	3,407
	4,687	3,407
Deposits**	21	336
	4,708	3,743

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

* 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.

** Deposits are classified as financial assets at amortised cost.

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

	30 June 2021 \$'000	30 June 2020 \$'000
Balance at beginning of year	3,743	5,029
Revaluations	502	(69)
Interest received	104	90
Disposal of investment	(837)	(855)
Acquisition of investments	393	452
Foreign exchange differences	803	(904)
Balance at end of year	4,708	3,743

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20. INVENTORIES

	30 June 2021	30 June 2020
	\$'000	\$'000
Finished goods	384	591
Consumable stores	508	474
Other	4	115
Provision for obsolete inventory	(62)	(71)
	<u>834</u>	<u>1,109</u>

The cost of inventories recognised as a credit during the year in respect of continuing operations was \$273 thousand (2020 expense: \$273 thousand).

21. TRADE AND OTHER RECEIVABLES

	30 June 2021	30 June 2020
	\$'000	\$'000
Trade receivables	3,098	923
Other receivables	683	677
Expected credit losses allowance	(351)	(289)
	<u>3,430</u>	<u>1,311</u>

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 (2020: 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 expected credit losses (ECLs) on trade receivables. To measure the ECLs, trade receivables are grouped based on shared credit risk characteristics and the days past due to identify non-performing receivables. In addition, forward-looking macro-economic conditions and factors are considered when determining the ECLs for trade receivables, namely trading conditions in the regional coal user markets, as well as economic growth and inflationary outlook in the short-term. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 90 days past due. Based on the year-end ECL assessment performed, no material loss allowance provision was required at the end of the financial year.

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

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

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22. CASH AND CASH EQUIVALENTS

	30 June 2021 \$'000	30 June 2020 \$'000
Bank balances	3,226	2,678
Bank overdraft	(2,203)	(2,214)
	1,023	464
Restricted cash	95	57
	95	57

The bank overdraft relates to an ABSA facility that was secured during the 2020 financial year, from ABSA Bank for \$1,384 thousand (ZAR 20,000 thousand). The facility is for short-term working capital requirements and potential expansion opportunities. It has a floating coupon at the South African Prime rate (currently 7.0% per annum) plus 1.0%, with the operating mine, Uitkomst Colliery, debtors ceded as security. The facility is subject to annual review.

The short-term working facility was increased by an additional \$1,384 thousand (ZAR 20,000 thousand) in May 2020 to alleviate the financial challenges during the COVID-19 period. Repayment of the facility commenced during the financial year and the balance outstanding at year-end was \$820 thousand. This balance is payable in equal monthly instalments prior to January 2022 and the same interest rate applies.

The restricted cash balance of \$95 thousand (FY2020: \$57 thousand) 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 \$5.4 million (FY2020: \$5.4 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

	30 June 2021 \$'000	30 June 2020 \$'000
Deferred consideration	2,796	2,321
Balance at beginning of year	2,321	4,071
Repaid during the year - Khethkile	-	(271)
Repaid during the year – Pan African	-	(1,004)
Repaid during the year – Wagner loan	(117)	-
Interest accrued	103	175
Foreign Exchange	489	(650)
Balance at end of year	2,796	2,321
Current	2,796	101
Non-Current	-	2,220
	2,796	2,321

Lukin and Salaita deferred consideration

During FY2019, the Company's subsidiary, Baobab Mining and Exploration (Pty) Ltd ("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 \$4,892 thousand (ZAR70,000 thousand). \$2,446 thousand (ZAR35,000 thousand) of the acquisition price has been deferred to the earlier of:

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23. DEFERRED CONSIDERATION (Continued)

- the third anniversary of the transfer of the properties; or
- the first anniversary of production of coal underlying the properties; or
- 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 Minister of Land Affairs and the successful claimants, who are shareholders in Baobab, for long-term access to the Properties.

The deferred consideration accrues interest at the South African prime interest rate (currently 7.0%) less 3.0% and the deferred consideration is payable in January 2022.

24. BORROWINGS

	30 June 2021 \$'000	30 June 2020 \$'000
Industrial Development Corporation of South Africa Limited	18,547	12,587
Pan African Resources Management Services (Pty) Ltd	935	1,008
	<u>19,482</u>	<u>13,595</u>
Balance at beginning of year	13,595	14,299
IDC loan acquired during the year	2,347	-
Repayment – PARMS	(340)	(220)
Repayment Enprotec	-	(140)
Interest accrued	617	2,566
Warrants issued to IDC	(43)	-
Foreign Exchange	3,306	(2,910)
Balance at end of year	<u>19,482</u>	<u>13,595</u>
Non-current	251	566
Current	<u>19,231</u>	<u>13,029</u>
	<u>19,482</u>	<u>13,595</u>

Industrial Development Corporation of South Africa Limited

In March 2017, the Company and Baobab Mining and Exploration Proprietary Limited (“Baobab”), a subsidiary of MC Mining and owner of the NOMR for the Makhado Project entered into a loan agreement with the Industrial Development Corporation of South Africa Limited (“IDC”) which provided for a loan facility of \$16,772 thousand (ZAR240,000 thousand) (the “March loan facility”). The facility was provided to advance the development of the Makhado Project. A first tranche drawn down of \$8,386 thousand (ZAR120,000 thousand) was completed in May 2017.

The IDC loan facility of \$16,772 thousand (ZAR240,000 thousand) in March 2017 was restructured during the period. In addition to the initial \$8,386 thousand (ZAR120,000 thousand) draw down in May 2017, the IDC agreed that the Company’s subsidiary, Baobab, draw down \$2,795 thousand (ZAR40,000 thousand) representing the second tranche drawn on that loan facility. The remaining \$5,591 thousand (ZAR80,000 thousand) undrawn balance was then cancelled.

The \$2,795 thousand (ZAR40,000 thousand) loan facility restructure was conditional upon the Company raising \$1,048 thousand (ZAR15,000 thousand) in the form of new equity. That condition was satisfied in August 2020 at which time 13,331,433 new shares were issued raising \$1,048 thousand (ZAR15,000 thousand). The \$11,181 thousand (ZAR160,000 thousand) IDC loan facility plus accrued interest is repayable on 31 January 2022.

MC Mining is required to issue warrants, in respect of MC Mining shares, to the IDC on each draw down date. The warrants for the first draw down equated to 2.5% (equating to 2,408,752 shares) of the entire issued share capital of MC Mining as at 5 December 2016. The price at which the IDC shall be entitled to purchase the MC Mining shares is equal to a thirty percent premium to the 30-day volume weighted average price of the MC Mining shares as traded on the JSE as at 5 December 2016 (ZAR0.60 per share (ZAR12.00 after the premium and the 20:1 share consolidation in December 2017)). The IDC is entitled to exercise the warrants for a period of five years from the date of issue. The

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24. BORROWINGS (Continued)

warrants for the second draw down equated to 0.833% (equating to 1,286,315 shares) of the entire share capital of MC Mining as at 1 October 2020.

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. As a result of the first draw down, 5% of Baobab's equity was issued to the IDC. Baobab is required to issue new ordinary shares to the IDC equivalent to 1.7% of the entire share capital of Baobab for the \$2,795 thousand (ZAR40,000 thousand) draw down.

Pan African Resources Management Services (Pty) Ltd

As part of the acquisition of the underground mining equipment and liabilities of Khethekile, the Group assumed a loan of \$1,435 thousand (ZAR20,539 thousand) from Pan African Resources Management Services (Pty) Ltd ("PARMS"). The loan bears interest at the South African Prime rate plus two percent and is compounded monthly. It is repayable in 48 monthly instalments of approximately \$53 thousand (ZAR752 thousand) per month.

25. PROVISIONS

	30 June 2021 \$'000	30 June 2020 \$'000
Employee provisions	195	197
Biodiversity offset provision	2,357	1,834
Rehabilitation provisions	4,332	3,162
	<u>6,884</u>	<u>5,193</u>

Employee provisions

The provision for employees represents unused annual leave entitlements.

Biodiversity offset provision

The Biodiversity offset agreement ("BOA") was signed by the Department of Environmental Affairs ("DEA"), South African National Parks Board and the Company to the value of \$3,843 thousand (ZAR55,000 thousand) over a 25 year period. The BOA commits the Company to pay \$3,843 thousand (ZAR55,000 thousand) to the South African National Parks Board over a period of 25 years. The following payment arrangement has been agreed:

Phase 1 – ZAR2,000 thousand paid in 2015

Phase 2 – ZAR15,000 thousand from year 2016 to 2021 (*ZAR2,500 thousand annually)

Phase 3 – ZAR13,000 thousand from year 2022 to 2028 (*ZAR1,800 thousand annually)

Phase 4 – ZAR13,000 thousand from 2029 to 2033 (*ZAR2,600 thousand annually)

Phase 5 – ZAR12,000 thousand from 2034 to 2038 (*ZAR2,400 thousand annually)

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

Rehabilitation provision

	30 June 2021 \$'000	30 June 2020 \$'000
Balance at beginning of year	3,162	4,531
Unwinding of discount	345	312
Change in assumptions on rehabilitation provisions	121	(892)
Foreign Exchange	704	(789)
Balance at end of year	<u>4,332</u>	<u>3,162</u>

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

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25. PROVISIONS (Continued)

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

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

The current estimate available is inflated by the long-term South African inflation rate of 4.7% annually and the discount rate applied to establish the current obligation is a South Africa government bond rate at 30 June 2021 of 8.91% (2020: 9.17%) annually.

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

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

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

	30 June 2021 \$'000	30 June 2020 \$'000
Current	195	197
Non-current	6,689	4,996
	6,884	5,193

26. DEFERRED TAX

	30 June 2021 \$'000	30 June 2020 \$'000
Deferred tax liability	4,669	4,078

The gross movement on the deferred tax account is as follows:

Balance at beginning of year	4,078	5,750
Provisions	(14)	66
Capital allowances	(183)	(475)
Prepayments	-	-
Prior year adjustment	(27)	(34)
Foreign Exchange	815	(1,229)
Balance at end of year	4,669	4,078

The deferred tax balances at year-end are represented by:

Deferred tax assets

Provisions	373	292
Prepayments	-	-
Balance at end of year	373	292

Deferred tax liabilities

Capital allowances on property plant and equipment	(5,042)	(4,370)
Balance at end of year	(5,042)	(4,370)
Net deferred tax liabilities	(4,669)	(4,078)

Deferred income tax assets are recognised for tax losses carried-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The deferred tax assets recognised relate to Uitkomst Colliery. The Group did not recognise deferred income tax assets of \$45,571 thousand (2020: \$45,571 thousand) in respect of losses

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26. DEFERRED TAX (Continued)

amounting to \$13,152 thousand (2020: \$13,152 thousand) and unredeemed capital expenditure of \$45,571 thousand (2020: \$45,571 thousand) that can be carried forward against future taxable income.

27. LEASES

As part of the historical acquisition of Khethekile, Uitkomst Colliery assumed certain vehicle leases. In addition, Uitkomst Colliery also entered into an asset financing arrangement with ABSA Bank Limited for the acquisition of new underground mining equipment. The rolling five-year facility is subject to a floating coupon at the South African prime rate (currently 7.0% per annum) plus 0.5% and is secured by the mining equipment purchased.

The movement in the lease liabilities is as follows:

	30 June 2021 \$'000	30 Jun 2020 \$'000
Balance at beginning of the period	1,835	1,001
Impact of adopting AASB16 – 1 July 2019	-	1,893
Modification	858	-
Additions	102	162
Interest	202	258
Repayments	(1,038)	(994)
Foreign exchange differences	453	(485)
Balance at end of period	2,412	1,835

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

	30 June 2021 \$'000	30 Jun 2020 \$'000
Not later than one year	855	928
Later than one year and not later than five years	2,068	1,122
Later than five years	113	108
	3,036	2,158
Less future finance charges	(624)	(323)
Present value of minimum lease payments	2,412	1,835

28. TRADE AND OTHER PAYABLES

	30 June 2021 \$'000	30 June 2020 \$'000
Trade payables	2,412	1,404
Accrued expenses	5,110	3,999
Other payables	1,872	1,060
	9,394	6,463

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

Included in other payables is the balance of the AMSA prepayment of \$437 thousands.

MC MINING LIMITED
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29. ISSUED CAPITAL

During the reporting period, the Company issued, 13,331,433 fully paid ordinary shares at \$0.07 per share.

Fully paid ordinary shares

	30 June 2021	30 June 2020
	\$'000	\$'000
154,419,555 (2020: 141,088,122) fully paid ordinary shares	1,041,884	1,041,080

	30 June 2021	30 June 2021
	Number	\$'000
Movements in fully paid ordinary shares		
At 30 June 2020	141,088,122	1,041,080
Shares issued	13,331,433	869
Share issue cost	-	(65)
At 30 June 2021	154,419,555	1,041,884

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

	30 June 2021	30 June 2020
	\$'000	\$'000
Accumulated deficit at the beginning of the financial year	(895,591)	(884,297)
Net loss attributed to Owners of the Company	(11,745)	(12,048)
Transferred from share based payment reserve	134	754
Accumulated deficit at the end of the financial year	(907,202)	(895,591)

31. RESERVES

	30 June 2021	30 June 2020
	\$'000	\$'000
Capital profits reserve	91	91
Share based payment reserve	1,494	1,460
Warrants reserve	1,177	1,134
Foreign currency translation reserve	(30,199)	(48,603)
	(27,437)	(45,918)

MC MINING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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31. RESERVES (Continued)

Movements for the year can be reconciled as follows:

Share-based payments reserve

	30 June 2021	30 June 2020
	\$'000	\$'000
Opening balance	1,460	2,234
Share options issued during the year	589	769
Share options cancelled/forfeited/expired	(555)	(1,412)
Shares issued	-	(131)
Closing balance	1,494	1,460

Foreign currency translation reserve

Opening balance	(48,603)	(28,060)
Exchange differences on translating foreign operations	18,404	(20,742)
Liquidation of Freewheel	-	199
Closing balance	(30,199)	(48,603)

Warrants reserve

Opening balance	1,134	1,134
Warrants issued	43	-
Closing balance	1,177	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 Black Economic Empowerment charges.

Foreign currency translation reserve

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

Warrants reserve

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

32. SHARE-BASED PAYMENTS

Employee share option plan

The Group maintains certain Employee Share Option Plans ('ESOP's') 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.

There were no share-based payments existing at 30 June 2021.

Share options outstanding at the end of the year

The share options outstanding at the end of the year were NIL.

MC MINING LIMITED
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32. SHARE-BASED PAYMENTS (Continued)

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 20 November 2020, 4,858,467 performance rights were issued to senior management. The number of rights are split between three tranches. The market based vesting conditions are to be measured over the one-year period from 20 November 2020 to 19 November 2021 for Tranche 1, the two-year period from 20 November 2021 to 19 November 2022 for Tranche 2 and the three-year period from 20 November 2022 to 19 November 2023 for Tranche 3.

Inputs into the model were as follows:

	Tranche 1	Tranche 2	Tranche 3
Number of rights	1,619,489	1,619,489	1,619,489
19 November 2020 closing price	ZAR1.56	ZAR1.56	ZAR1.56
Exercise price	Nil	Nil	Nil
Expiry date	19 November 2021	19 November 2022	19 November 2023
Performance period (years)	1	2	3
Risk free interest rate	7.42%	7.42%	7.42%

On 20 November 2020, 1,602,393 Performance Rights were issued to senior management as a special incentive. These were granted to certain employees of the company in the form of MC Mining Limited shares. The Incentive Shares will vest in full on the hot commissioning of the Vele Colliery plant. If the hot commissioning does not take place before 31 March 2022, the Incentive Shares will lapse.

Inputs into the model were as follows:

	Performance rights
19 November 2020 closing price	ZAR1.56
Exercise price	Nil
Expiry date	31 March 2022
Risk free interest rate	7.42%

On 22 November 2019, 1,143,657 performance rights were issued to senior management. The number of rights are split between three tranches. The market based vesting conditions are to be measured over the one-year period from 22 November 2019 to 21 November 2020 for Tranche 1, the two-year period from 22 November 2019 to 21 November 2021 for Tranche 2 and the three-year period from 22 November 2019 to 21 November 2022 for Tranche 3.

Inputs into the model were as follows:

	Tranche 1	Tranche 2	Tranche 3
Number of rights	1,246,487	1,246,487	1,246,487
22 November 2019 closing price	ZAR4.80	ZAR4.80	ZAR4.80
Exercise price	Nil	Nil	Nil
Expiry date	21 November 2020	21 November 2021	21 November 2022
Performance period (years)	1	2	3
Risk free interest rate	7.42%	7.42%	7.42%

1,246,487 Performance Rights issued on 22 November 2019 expired on 21 November 2020.

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32. SHARE-BASED PAYMENTS (Continued)

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

Inputs into the model were as follows:

	Performance rights
Spot 5 day VWAP	ZAR7.50
Exercise price	Nil
Expiry date	22 November 2021
Performance period	3.00
Risk free interest rate	7.28%

Performance Rights issued on 24 November 2017 expired during the current year, on 23 November 2020.

The total share based payment expense recognised in relation to the Performance Rights in the current financial year is \$168 thousand (FY2020: \$416 thousand).

Movement in Performance Rights

	30 June 2021 \$'000	30 June 2020 \$'000
Performance rights outstanding at beginning of year	4,743,472	6,270,814
Performance rights expired	(1,461,694)	(1,082,875)
Performance rights forfeited	(7,043,369)	(3,958,837)
Performance rights granted	11,945,013	3,722,907
Performance rights shares issued	-	(208,537)
Performance rights outstanding at end of year	8,183,422	4,743,472

33. NON-CONTROLLING INTEREST

Non-controlling interests comprise the following:

	30 June 2021 \$'000	30 June 2020 \$'000
Baobab non-controlling interest	(721)	(628)
	(721)	(628)

34. FINANCIAL INSTRUMENTS

34.1. 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 20%. This was to enable the Company to raise the loan from the IDC.

MC MINING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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34. FINANCIAL INSTRUMENTS (Continued)

	30 June 2021 \$'000	30 June 2020 \$'000
Net debt (1)	22,278	15,452
Equity (2)	106,524	98,943
Debt to equity ratio	21%	16%

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.

34.2. Categories of financial instruments

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

	30 June 2021 \$'000	30 June 2020 \$'000
Financial assets		
Trade and other receivables	3,430	1,311
Cash and cash equivalents	3,226	2,678
Restricted cash	95	57
Other Financial Assets	4,708	3,743
Total financial assets	11,459	7,789
Financial liabilities		
Deferred consideration	2,796	2,321
Borrowings	19,482	13,595
Bank overdraft	2,203	2,214
Trade and other payables	9,394	6,463
Total financial liabilities	33,875	24,593

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.

MC MINING LIMITED
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34. FINANCIAL INSTRUMENTS (Continued)

As at 30 June 2021	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	-	4,687	-	4,687

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

34.3. 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.

34.4. 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	Held in AUD	Held in USD	Total
Balances at 30 June 2021	\$'000	\$'000	\$'000	\$'000
Financial assets				
Cash and cash equivalents ¹	-	2	3	5
Total financial assets	-	2	3	5
¹ Cash includes restricted cash				
Financial liabilities				
Trade and other payables	3	21	-	24
Total financial liabilities	3	21	-	24

MC MINING LIMITED
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34. FINANCIAL INSTRUMENTS (Continued)

	Held in GBP	Held in AUD	Held in USD	Total
Balances at 30 June 2020	\$'000	\$'000	\$'000	\$'000
Financial assets				
Cash and cash equivalents ¹	-	7	35	42
Total financial assets	-	7	35	42
¹ Cash includes restricted cash				
Financial liabilities				
Trade and other payables	7	50	-	57
Total financial liabilities	7	50	-	57

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

Impact on profit / (loss)

	30 June 2021 \$'000	30 June 2020 \$'000
Judgements on reasonable possible movements		
USD/ZAR increase by 10%	40	2
USD/ZAR decrease by 10%	(40)	(2)

34.5. 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.

Impact on profit / (loss)

	30 June 2021 \$'000	30 June 2020 \$'000
Judgements on reasonable possible movements		
Increase of 0.2% in interest rate	5	6
Decrease of 0.2% in interest rate	(5)	(6)
Increase of 1.0% in interest rate	25	28
Decrease of 1.0% in interest rate	(25)	(28)

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.

34. FINANCIAL INSTRUMENTS (Continued)

34.6. 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.

34.7 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	Australia	South Africa	Total
Balances at 30 June 2021	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents and restricted cash	-	2	3,319	3,321
	-	-	-	-
	United Kingdom	Australia	South Africa	Total
Balances at 30 June 2020	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents and restricted cash	-	7	2,728	2,735
	-	7	2,728	2,735

MC MINING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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34. FINANCIAL INSTRUMENTS (Continued)

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

	Less than 6 months \$'000	Between 6 – 12 months \$'000	Greater than 12 months \$'000	Total \$'000
Balances at 30 June 2021				
Deferred consideration (1)	-	2,796	-	2,796
Borrowings (1)	251	18,980	251	19,482
Trade and other payables	9,394	-	-	9,394
	9,645	21,776	251	31,672

	Less than 6 months \$'000	Between 6 – 12 months \$'000	Greater than 12 months \$'000	Total \$'000
Balances at 30 June 2021				
Trade and Other Receivables	3,430	-	-	3,430
Cash and Cash Equivalents	3,226	-	-	3,226
Restricted Cash	-	-	95	95
Other financial assets	-	-	4,708	4,708
	6,656	-	4,803	11,459

1. Interest bearing at rates between 4 % and 22.2 %

	Less than 6 months \$'000	Between 6 – 12 months \$'000	Greater than 12 months \$'000	Total \$'000
Balances at 30 June 2020				
Deferred consideration (1)	104	-	2,217	2,475
Borrowings (1)	12,808	221	566	13,595
Trade and other payables	6,463	-	-	6,463
	19,375	221	3,034	22,630

	Less than 6 months \$'000	Between 6 – 12 months \$'000	Greater than 12 months \$'000	Total \$'000
Balances at 30 June 2020				
Trade and Other Receivables	1,331	-	-	1,331
Cash and Cash Equivalents	2,678	-	-	2,678
Restricted Cash	-	-	57	57
Other financial assets	-	-	3,743	3,743
	3,989	-	3,800	7,789

Interest bearing at rates between 7% and 22.2 %

MC MINING LIMITED
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35. 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:

	30 June 2021 \$'000	30 June 2020 \$'000
Cash and bank balances (note 22)	1,023	464

Reconciliation of loss before tax to net cash used in operations

	30 June 2021 \$'000	30 June 2020 \$'000
Loss before tax (continuing and discontinuing operations)	(12,107)	(12,850)
Add back:	-	
Depreciation	2,622	2,608
Net impairment expense	6,760	1,257
Share-based payment	168	416
Bad debt written off	7	182
Fair value adjustment	(64)	58
Re-valuation of investments	(502)	69
Movement in provisions	(83)	(155)
Finance costs (net)	1,432	2,909
Disposal of assets	-	113
Freewheel NCI written-off	-	(575)
Foreign exchange loss/(gains) on operating activities	293	598
Changes in working capital:		
Decrease/(Increase) in inventories	352	(350)
Decrease/(Increase) in trade and other receivables	(1,753)	1,250
(Decrease)/ Increase in trade and other payables	1,458	(580)
Cash used in operations	(1,417)	(5,050)

36. CONTINGENCIES AND COMMITMENTS

Contingent liabilities

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

Commitments

In addition to the commitments of the parent entity as disclosed under note 42, subsidiary companies have typical financial commitments associated with their MR's granted by the South African DMR.

MC MINING LIMITED
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37. 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:

	30 June 2021 \$'000	30 June 2020 \$'000
Short-term employee benefits	590	1,242
Post-employment benefits	-	6
Termination benefits	-	172
Share-based payments	(242)	84
	<u>348</u>	<u>1,504</u>

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.

38. CONTROLLED ENTITIES

Particulars in relation to controlled entities.

	Country of incorporation	30 June 2021 %	30 June 2020 %
Bakstaan Boerdery Proprietary Limited *	South Africa	100	100
Baobab Mining & Exploration Proprietary Limited**	South Africa	95	95
Chapudi Coal Proprietary Limited ***	South Africa	74	74
Coal of Africa & ArcelorMittal Analytical Laboratories Proprietary Limited	South Africa	50	50
Cove Mining NL	Australia	100	100
Fumaria Property Holdings Proprietary Limited	South Africa	100	100
Golden Valley Services Proprietary Limited	Australia	100	100
GVM Metals Administration (South Africa) Proprietary Limited	South Africa	100	100
Harrisia Investments Holdings Proprietary Limited	South Africa	100	100
Kwezi Mining Exploration Proprietary Limited ***	South Africa	74	74
Limpopo Coal Company Proprietary Limited	South Africa	100	100
Makhado Centre of Learning NPC**	South Africa	95	95
MbeuYashu Proprietary Limited	South Africa	74	74
Nyambose Mining Proprietary Limited	South Africa	100	100
Pan African Resources Coal Holdings Proprietary Limited	South Africa	100	100
Regulus Investment Holdings Proprietary Limited	South Africa	100	100
Silkwood Trading 14 Proprietary Limited	South Africa	100	100
Uitkomst Colliery Proprietary Limited	South Africa	70	70

* Subsidiary company of Fumaria Property Holdings Proprietary Limited

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

*** Subsidiary companies of MbeuYashu Proprietary Limited

MC MINING LIMITED
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39. EVENTS AFTER THE REPORTING PERIOD

During July 2021 the IDC extended the repayment of the IDC Facility as well as the drawdown of the new \$17,121 thousand (ZAR245,000 thousand) New Facility, both to 31 January 2022.

Prepayment of \$2.1 million (ZAR29.7 million) from Uitkomst's largest customer for 16,500t of coal, to be amortised at 2,750t over six months from September 2021 to February 2022, improving working capital management in the near-term and forms part of the going concern assumptions assessed by the Company's auditors.

40. PARENT ENTITY FINANCIAL INFORMATION

	Parent entity	
	30 June 2021	30 June 2020
	\$'000	\$'000
Summary financial information		
Non-current assets	99,423	99,332
Current assets	17	75
Total assets	99,440	99,407
Non-current liabilities	-	-
Current liabilities	758	688
Total liabilities	758	688
Net assets	98,682	98,719
Shareholders' Equity		
Issued capital	1,041,884	1,041,080
Accumulated deficit and reserves	(943,203)	(942,361)
	98,681	98,719
Profit/(Loss) for the year	(931)	(3,632)
Total comprehensive loss	(931)	(3,632)

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 2021 and of its financial performance for the year then ended, and
- (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 2021
- 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 significant accounting policies and other explanatory information, and
- the directors' declaration.

Basis for opinion

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

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

Independence

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

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a net loss of US\$11,837,000 during the year ended 30 June 2021 and a net cash outflow from operating activities of US\$1,353,000 and, as of that date, the Group had net current liabilities of US\$27,593,000.

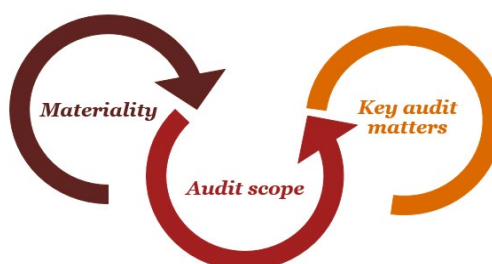
Note 1 indicates that the Group is dependent on the deferral and the settlement of debt tranches relating to the existing IDC term facility. The note further states that additional financing or raising additional capital is also required to enable the Group to continue its normal business activities,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

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

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

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



Materiality	Audit scope
- For the purpose of our audit we used overall Group materiality of US\$1.547 million, which represents approximately 1% of the Group's consolidated 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 consolidated total assets as the benchmark, because in our view, it is the benchmark which reflects the key focus of the users of the financial report, and is a generally accepted benchmark. This is because the Group is still in the exploration and development phase and as such users are interested in determining if the Group is achieving its strategy of becoming a sustainable mid-tier coal producer. - We chose 1% which is consistent with quantitative materiality thresholds used for companies that are in the exploration and development phase.	Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of exploration and evaluation assets, development assets and property, plant and equipment Refer to the following notes to the financial report for details: • Note 3.1: Asset carrying values and impairment charges; • Note 14: Exploration and evaluation assets; • Note 15: Development assets; and • Note 16: Property plant and equipment. At 30 June 2021, the Group held exploration and evaluation assets with a carrying amount of US\$93,467,000, development assets of US\$19,055,000, and property, plant and equipment of US\$27,370,000, respectively. At each reporting date, the Group evaluates whether there are events and conditions specific to the Group that could be indicative of impairment triggers. In the current year, the Group has concluded that there were indicators of impairment as a result of the discount between the Group's market capitalisation and net asset value. The recoverable amounts for the Group's cash-generating units (CGUs) are assessed using fair value less costs to sell calculations, which incorporate various key assumptions such as future coal prices, future operating & capital expenditure costs, discount rates, foreign exchange rates and coal reserves. For CGUs classified as development assets and property, plant and equipment, the values are based on estimates of future discounted cash flows per the latest board-approved business forecasts regarding production volumes, costs of production, capital expenditure, coal prices and market forecasts for foreign exchange rates.	Our audit addressed the key audit matter as follows: Through discussions with management, we obtained an understanding of their impairment assessments and the methodologies and models used in determining the recoverable amounts of the CGUs. We obtained the Group's assessments and evaluated the reasonableness of the recoverable amount for the CGUs by performing the following procedures: • Making use of our valuation expertise, we assessed these methodologies and models applied by the Group and found these to be in line with industry norms. • We tested the mathematical accuracy of the discounted cash flow models. • We assessed the impairment models against the requirements of Australian Accounting Standards and generally accepted methodologies. • We assessed the appropriateness of the indicators identified by the Group in their assessment by comparing the Group's consolidated net asset value with its market capitalisation. • Using our knowledge of the Group's operations and internal Group reporting structure, we evaluated whether the CGUs identified by the Group in their assessment represent the smallest identifiable groups of assets that can generate largely independent cash inflows. Based on our work performed, we accepted the Group's identification of CGUs as being consistent with the Group's operations and internal Group reporting. • Through inspection and enquiry from management we evaluated whether the CGUs included assets, liabilities and cash flows directly attributable to each CGU and a reasonable allocation of corporate assets and overheads.

Key audit matter	How our audit addressed the key audit matter
For exploration and evaluation asset CGUs the values are determined based on <i>in situ</i> resource multiple based values (fair value less costs to sell). Further detail of the key financial assumptions and methodologies used in the determination of the recoverable amounts of the CGUs are disclosed in note 3.1 to the financial report. As described in note 9 to the financial statements, an impairment of US\$6,759,000 was recognised in respect of development assets. No impairment was recognised for the exploration and evaluation assets and property, plant and equipment for the year ended 30 June 2021. We considered the impairment assessment of exploration and evaluation assets, development assets and property, plant and equipment to be a matter of most significance to the current year audit due to the significant judgements applied by the Group in determining the recoverable amounts of the CGUs to which these assets belong.	• Making use of our valuations expertise, we assessed the reasonableness of the key financial assumptions used in the Group's calculations by performing the following procedures: ○ We assessed the reasonableness of the thermal, hard coking coal prices and Rand/US dollar exchange rates by comparing these key financial assumptions to a range of observable external forecasts issued by market analysts. ○ We evaluated the real discount rates by assessing relevant comparable third-party sources and market data such as the cost of debt, risk-free rates, market risk premiums, debt to equity ratios and betas of comparable companies. • We considered whether the Group's assumptions relating to production volumes and operating cash outflows used in the discounted cash flow models are consistent with the Group's mine plans, resource statements prepared by the competent person and operating budgets, mining contractor rates (where applicable) as well as actual performance outcomes achieved to date (where applicable), by performing the following procedures: ○ We agreed the cost to the approved budgets. ○ We assessed the approved budgets against prior period actual results for consistency. ○ We agreed the life-of-mine to the approved mine plan received from the competent person. ○ We assessed the assumptions used by the Group against market related rates. ○ We evaluated the competence, experience, objectivity and qualifications of the Group's competent person. • We considered the reasonableness of the Group's sensitivity analysis in relation to the key financial assumptions used in the impairment model by performing an independent calculation to assess under which assumptions an impairment would occur. • We evaluated the adequacy of the disclosures made in note 3.1 to the financial report against the requirements 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 2021, 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 accordingly we do not express any form of assurance conclusion thereon.

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

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

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:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.



Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 10 to 17 of the directors' report for the year ended 30 June 2021.

In our opinion, the remuneration report of MC Mining Limited for the year ended 30 June 2021 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 2021