

Mineral Commodities Ltd
ACN: 008 478 653

APPENDIX 4E: PRELIMINARY FINAL REPORT

2017

RESULTS FOR ANNOUNCEMENT TO THE MARKET

This Preliminary Final Report is provided to the Australian Securities Exchange (ASX) under ASX Listing Rule 4.3A

Current Reporting Period: 31 December 2017

Previous Corresponding Period: 31 December 2016

For and on behalf of the Directors



PETER TORRE
COMPANY SECRETARY
Dated: 28 February 2018

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Revenue and Net Profit				USD \$'000's
Revenue from ordinary activities	up	131%	to	62,608
Profit from ordinary activities after tax attributable to members	up	163%	to	9,934
Net profit for the period attributable to members	up	163%	to	9,934

COMMENTARY ON RESULTS AND OTHER SIGNIFICANT INFORMATION

COMMENTARY

The Directors' Report accompanying this Preliminary Final Report contains a review of operations and commentary on the results for the year ended 31 December 2017.

Dividends

During the year, the following unfranked dividends were paid by the Company:

	Australian Cents per share	Total amount A\$	Date of Payment
Declared and paid during the year 2017			
Final 2016 ordinary	1.2	4,859,299	16 May 2017
Interim 2017 ordinary	0.5	2,024,713	10 October 2017
Total amount		<u>6,884,012</u>	

The directors have also declared a final unfranked dividend in respect to the financial year ending 31 December 2017 and provide the following details:

Date the dividend is payable	14 May 2018
Record date to determine entitlement to the dividend	6 March 2018
Amount per security	A\$0.007
Total dividend	A\$ 2,904,591
Amount per security of foreign sourced dividend or distribution	N/A
Details of any dividend reinvestment plans in operation	N/A
The last date for receipt of an election notice for participation in any dividend reinvestment plans	N/A

NET TANGIBLE ASSET BACKING

	31 Dec 2017 S\$'000	31 Dec 2016 US\$'000
Net assets	45,928	36,121
Less intangible assets	-	-
Net tangible assets of the Company	45,928	36,121
	Number of Shares	Number of Shares
Fully paid ordinary shares on issue at balance date	414,941,571	404,941,571
	US Cents	US Cents
Net tangible asset backing per issued ordinary share as at balance date	11.07	8.92

EARNINGS PER SHARE

Basic earnings per share	2.45	0.93
Diluted earnings per share	2.45	0.93

AUDIT DETAILS

The accompanying financial report has been audited.

Mineral Commodities Ltd

ABN 39 008 478 653

Financial Report

31 December 2017

Contents

Corporate directory..... 2

Directors' report..... 4

Auditor's independence declaration 27

Financial statements 28

The consolidated financial statements are presented in United States Dollars (“\$”), unless otherwise stated, which is the Company's presentation currency.

Corporate directory

Directors	Mark Victor Caruso Joseph Anthony Caruso Peter Patrick Torre Guy Redvers Walker Colin Ross Hastings	Executive Chairman and Chief Executive Officer Non-Executive Director Non-Executive Director and Company Secretary Non-Executive Director Independent Non-Executive Director
Principal registered office in Australia	39-43 Murray Road North Welshpool WA 6106 Telephone: +61 (8) 6253 1100 Facsimile: +61 (8) 9258 3601 Email: info@mncom.com.au	
Auditors	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco WA 6008	
Solicitors	Dominion Legal Pty Ltd 17 Lacey Street Perth WA 6000 Steinepreis Paganin Level 4, The Read Buildings 16 Milligan Street Perth WA 6000	ENSAfrica 150 West Street Sandton Johannesburg 2196 South Africa
Bankers	National Australia Bank Suite 7, 51 Kewdale Road Welshpool WA 6106	
Share registry	Link Market Services Limited Level 12, QV1 Building 250 St Georges Terrace Perth WA 6000	
Stock exchange listing	The Company's shares are listed on the Australian Securities Exchange (ASX) under ASX Code MRC	
Website address	www.mineralcommodities.com	

Competent Person Statement

The information, if any, in this report which relates to exploration results, mineral resources or ore reserves for the Tormin Mineral Sands Project and the Munglinup Graphite Project is based on information compiled by Mr Adriaan du Toit, who is a Member of the Australasian Institute of Mining and Metallurgy ("AusIMM") and an independent consultant to Mineral Commodities Ltd. Mr du Toit is the director and principal geologist of Aemco Pty Ltd and has over 26 years' of exploration and mining experience in a variety of mineral deposits and styles. Mr du Toit has sufficient experience which is relevant to the style of mineralisations and type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code, 2012 Edition"). The information from Mr du Toit was prepared under the JORC Code, 2012 Edition. Mr du Toit consents to inclusion in the report of the matters based on this information in the form and context in which it appears.

The information, if any, in this report that relates to metallurgy for the Munglinup Graphite Project is based on information compiled and reviewed by Mr David Pass, who is a Member of AusIMM. Mr Pass is an employee of Battery Limits Pty Ltd. Mr Pass has sufficient experience relevant to process plant and infrastructure design thereof to qualify as a Competent Person as defined by the JORC Code, 2012 Edition. Mr Pass consents to the inclusion in the report of the matters based on the reviewed information in the form and context in which it appears.

The information, if any, in this report which relates to exploration results, mineral resources or ore reserves for Xolobeni Mineral Sands Project is based on information compiled by Mr Allen Maynard, who is a Member of the Australian Institute of Geoscientists ("AIG"), a corporate member of AusIMM and independent consultant to Mineral Commodities Ltd. Mr Maynard is the director and principal geologist of Al Maynard & Associates Pty Ltd and has over 37 years' of exploration and mining experience in a variety of mineral deposit styles. Mr Maynard has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for reporting of Exploration Results, Exploration Targets, Mineral Resources and Ore Reserves" (JORC Code, 2004 Edition). This information was prepared and first disclosed under the JORC Code, 2004 Edition. It has not been updated since to comply with the JORC Code, 2012 Edition on the basis that the information has not materially changed since it was last reported. Mr Maynard consents to inclusion in the report of the matters based on this information in the form and context in which it appears.

Directors' report

Your Directors present their report on the consolidated entity (referred to hereafter as the "Group") consisting of Mineral Commodities Ltd (the "Company") and the entities it controlled at the end of, or during, the year ended 31 December 2017. The consolidated financial statements are presented in United States Dollars ("\$"), unless otherwise stated, which is the Company's presentation currency.

Directors

The following persons were Directors of the Company during the whole of the financial year and up to the date of this report:

Mark Victor Caruso
Joseph Anthony Caruso
Peter Patrick Torre
Guy Redvers Walker
Colin Ross Hastings

Principal activities

The principal activities of the Group during the year were:

- mineral sands mining and processing at the Group's Tormin Mineral Sands Project ("Tormin" or the "Tormin Project") in the Western Cape Province of South Africa;
- undertaking exploration and evaluation for the future development of the Munglinup Graphite Project ("Munglinup" or the "Munglinup Project") in the Great Southern of Western Australia;
- undertaking initial entry acquisition and exploration activities in Iran; and
- investigations into other mineral resources, particularly through MRC Exploration Australia Pty Ltd focused over several tenements within Western Australia.

Dividends

Unfranked dividends paid or declared by the Company to members since the end of the previous financial year were:

	Australian Cents per share	Total amount A\$	Date of Payment
Declared and paid during the year 2017			
Final 2016 ordinary	1.2	4,859,299	16 May 2017
Interim 2017 ordinary	0.5	2,024,713	10 October 2017
Total amount		<u>6,884,012</u>	

Subsequent to year end, the Directors declared a final unfranked dividend for the year ended 31 December 2017 of 0.7 Australian cent per ordinary share, a total distribution of A\$2,904,594 based on the number of ordinary shares on issue as at 31 December 2017.

As the dividend was unfranked, there are income tax consequences for the owners of the Company relating to this dividend.

Directors' report (continued)

Review of operations

The operations and financial position of the Group and its business strategies is set out below.

The following key production and sales metrics were achieved by the Tormin Project in 2017.

Production – Full Year
Mining: 2,052,621 tonnes mined at a grade of 26.97% Heavy Mineral Concentrate (“HMC”) consisting of: • 19.74% Garnet; • 5.25% Ilmenite; • 1.03% Zircon; • 0.49% Rutile; and • 0.46% Leucoxene Production and Processing: 843,567 tonnes, including 224,196 tonnes of high zircon content Garnet concentrate refeed and 78,106 tonnes of high zircon content Ilmenite concentrate refeed, processed through the Garnet Stripping Plant / Secondary Concentrator Plant (“GSP/SCP”) to produce: • 435,590 tonnes Garnet concentrate; • 217,019 tonnes Ilmenite concentrate; and • 22,111 tonnes Zircon/Rutile concentrate.
Sales – Full Year: \$60.9 million
Zircon/Rutile concentrate: 23,152 wet metric tonnes Ilmenite concentrate: 282,098 wet metric tonnes Garnet concentrate: 243,962 wet metric tonnes
Corporate and Cash
Cash: Cash balance of \$11.0 million as at 31 December 2017, plus \$6.1 million in trade and other receivables. Debt: \$1.1 million of shareholder loans fully repaid at the beginning of the year; \$4.5 million debt facility obtained from GMA Garnet Group (“GMA”) to finance the Garnet Stripping Plant (“GSP”) fully drawn down and repayment of \$0.125 million per month commenced in June 2017 (principal owing at 31 December 2017 is \$3.625 million); and \$0.6 million (A\$0.7 million) overdraft facility unutilised as at 31 December 2017.

Safety, environment and community

The Company continued its exemplary performance in occupational health and safety, with only one Lost Time Injury (“LTI”) for in excess of 3.0 million man hours worked since operations commenced in late 2013. Whilst the LTI was relatively minor (sprained ankle), it is extremely disappointing. The Company continues its drive to ensure that the safety of its workforce is paramount.

The Company's safety record continues to be industry best standard.

The Company worked closely with its joint shareholder in its South African subsidiary Mineral Sands Resources (Pty) Ltd (“MSR”) and Black Economic Empowerment (“BEE”) partner, Blue Bantry Investments 255 (Pty) Ltd (“Blue Bantry”), in continuing to assist in bridging the cultural divide that can sometimes exist in managing the expectations and interests of affected parties and communities.

The Company continues its commitment to community investment and BEE ownership and participation. During the year the Company spent in excess of Rand 4.3 million on Social Labour Plan (“SLP”) initiatives, including approximately Rand 2.8 million on human resources development initiatives; incorporating bursaries, scholarships, traineeships, apprenticeships and adult basic education and training (“ABET”) programs. In addition, Local Enterprise Development (“LED”) investment in community infrastructure exceeded Rand 0.9 million. The Company identified and completed a new LED Project in the Matzikama Municipality that saw the construction and fitout of the Nuwerus High School new computer laboratory including new laptops and furniture. In addition, several bursary students graduated during the year with Bachelors in Accounting and Science, with one of the students being employed full-time as an intern with MSR.

Further, the Company, through its Small Medium Micro Enterprises (“SMME”) development program, sponsored the establishment of several community based enterprises, including the establishment of a community based enterprise and purchase of equipment for the embroidery of all the Company's employee's personal protective equipment. In addition, the Company also continues to sponsor full-time Mathematics and English teachers at various local primary and secondary schools.

The Company's BEE preferential procurement and economic empowerment of Historically Disadvantaged South African's (“HDSA”) expenditure in 2017 was approximately Rand 336 million, and exceeded all targets set in this regard.

Directors' report (continued)

Review of operations (continued)

The Company operates its Tormin mining operation under the South African Government's One Environmental System, which came into effect on 8 December 2014. This legislation provides that the competent authority for all matters relating to environmental authorisations and compliance of the National Environmental Management Act, 1998 ('NEMA') is the Department of Mineral Resources ("DMR") insofar as the activities relate to mining or prospecting.

On 15 June 2017, the South African Minister of Mineral Resources, Mosebenzi Zwane, and the Department of Mineral Resources ("DMR") gazetted unilateral changes to the Broad-Based Black Socio-Economic Empowerment Charter for the South African Mining and Minerals Industry, 2017 ("2017 Mining Charter"). On 26 June 2017, the South African Chamber of Mines ("Chamber") applied for an urgent Interdict to prevent the implementation by the Minister and the DMR of the 2017 Mining Charter. On 14 July 2017, the Minister undertook in writing that neither he nor the DMR would implement or apply the provisions of the 2017 Mining Charter until judgement has been passed on the Chamber's urgent Interdict. This hearing has been deferred into 2018. Regardless, the Company's current 50% BEE ownership structure for its fully owned subsidiary, MSR, which operates the Tormin mine, sits well above the minimum BEE ownership threshold of 30% as contemplated under the new proposed legislation for existing and future Mining Rights.

Tormin – Operational Performance

Production Summary	31 December 2017	31 December 2016
	Actual	Actual
<i>Mining</i>		
Tonnes	2,052,621	1,807,750
Grade	26.97%	45.95%
- Garnet	19.74%	29.21%
- Ilmenite	5.25%	12.97%
- Zircon	1.03%	2.78%
- Rutile	0.49%	0.62%
- Leucoxene	0.46%	0.38%
<i>GSP / SCP Production & Processing</i>		
Tonnes processed	843,567	658,857
Tonnes produced		
- Garnet concentrate	435,590	270,802
- Ilmenite concentrate	217,019	211,704
- Zircon/Rutile concentrate	22,111	35,813
zircon in concentrate	70.66%	74.10%
rutile in concentrate	17.70%	13.34%
<i>Sales (wmt)</i>		
- Garnet concentrate	243,962	130,308
- Ilmenite concentrate	282,098	4,070
- Zircon/Rutile concentrate	23,152	38,408

The tonnage performance of the Tormin mining and processing operations exceeded the 2017 budget and 2016 operational performance.

Run of Mine ("ROM") production of 2,052,621 tonnes was achieved, versus budget of 1,751,620 tonnes and the previous year's 1,807,750 tonnes. ROM ore grading 26.97% Valuable Heavy Minerals ("VHM") was mined for the financial year, consisting of a garnet grade 19.74%, ilmenite grade 5.25%, zircon grade 1.03% and rutile grade 0.49%.

Mining cost per tonne of ore mined for the 2017 financial year was \$1.92/t, 14.3% below budget of \$2.24/t, reflective of a 17.2% increase in total mined tonnes against budget.

Zircon and rutile feed grades were lower than budget and prior year and resulted in reduced non-magnetic zircon/rutile concentrate production for the current financial year of 22,111 tonnes, versus a budget of 28,665 tonnes and a previous year of 35,813 tonnes. Contained zircon in the concentrate of 70.66% was above a budgeted 69.65%, whilst rutile was also above budget at 17.70% contained rutile in concentrate.

Directors' report (continued)

Review of operations (continued)

Gross ilmenite concentrate production for the current financial year was 217,019 tonnes versus a budget of 187,281 tonnes, and gross garnet production was 435,590 tonnes versus a budget of 168,709 tonnes.

During the current financial year, the Company re-treated 224,196 tonnes of previously stockpiled garnet concentrate to extract excess zircon, to produce a medium grade ilmenite concentrate and to upgrade the garnet concentrate grade. The Company also re-treated 78,106 tonnes of previously stockpiled ilmenite concentrate to create a high grade ilmenite concentrate and to extract excess zircon.

Continued process improvement initiatives, including capital spend, have been implemented to improve throughput and recoveries throughout the current financial year.

The amphibious excavator was commissioned in September 2017 and continued operation during the December quarter with modifications added to the suction of the pump cutter head to limit rock ingress. There is initial evidence from operations to date to suggest that lower grade material pumped from the surf zone onto the active beach ROM area results in concentration of VHM grades. Operations continue currently to optimise the production metrics and also the methodology to allow accelerated concentration of the material mined by the amphibious excavator. The Company is also investigating other methods of mining near shore surf zone which could include specialised underwater equipment.

Tormin Costs

The following key summary of unit costs and revenue is presented:

Summary of Unit Costs & Revenue Per Tonne	2017 Full Year	2016 Full Year
Unit production cash costs per tonne of final concentrates produced (\$/dmt)	27.89	27.03
Unit cost of goods sold per tonne of final concentrates sold (\$/wmt) ⁽¹⁾	77.47	99.29
Unit revenue per tonne of final concentrates sold (\$/wmt)	113.33	163.27
Revenue to cost of goods sold ratio	1.46	1.64

Note 1:- Cost of goods sold includes production cash costs, product handling, transport and selling costs, royalties, stock movements, and depreciation and amortisation. Excludes corporate and financing costs.

Production cash costs per tonne of zircon/rutile, ilmenite and garnet concentrate produced for the 2017 financial year was \$27.89/t, a 3% increase in comparison to the 2016 result of \$27.03/t.

Cost of goods sold (incorporating production cash costs, product handling, transport and selling costs, royalties, stock movements, and depreciation and amortisation) per tonne of concentrate sold was \$77.47/t for the 2017 year, as compared to \$99.29/t for the 2016 year and \$77.22 budgeted. The unit cost of goods sold was lower in 2017 in comparison to 2016 due to the first sales of "lower cost" bulk ilmenite in 2017 and additional garnet concentrate tonnes sold following execution of the Amended Garnet Offtake Agreement with GMA in April 2017.

Revenue per tonne of concentrate sold for the full year 2017 was \$113.33/t, above the budgeted \$91.61/t but below the prior year's result of \$163.27/t. The improvement in unit revenue against budget was due to higher ilmenite, zircon and rutile pricing, and additional revenue generated on the transport and shipment of previously stockpiled garnet concentrate. The lower unit revenue for 2017, when compared against 2016, is a reflection of the relative product mix sold with significantly higher volumes of bulk ilmenite and garnet concentrates sold in 2017 when compared to the higher value zircon/rutile concentrate; and irrespective of the higher ilmenite, zircon and rutile prices achieved in 2017.

Tormin - Sales and Marketing

The Company experienced strong demand for its ilmenite concentrate in 2017 due to a combination of tightening of the global ilmenite supply chain as well as curtailing of domestic sulphate ilmenite production within China due to environmental and economic cost of production factors. This was further complimented by demand from India arising from Indian regulatory issues restricting in-country feedstock availability. In addition, increased demand for all downstream finished titanium products continued to improve throughout 2017.

Directors' report (continued)

Review of operations (continued)

Tormin - Sales and Marketing (continued)

The Company saw incremental quarter on quarter increases in sales pricing in 2017 for its high grade non-magnetic zircon/rutile concentrate. The Company has seen a year-on-year increase of approximately 45% for its non-magnetic concentrate pricing with the first quarter sales for 2018 contracted at the highest dry metric tonne ("DMTU") rates since operations commenced.

Sales revenue for 2017 was \$60.9 million, above both the budgeted \$52.7 million and prior year's \$26.9 million. The increase against budget is materially driven by higher ilmenite, zircon and rutile pricing, and partially offset by lower non-magnetic concentrate tonnes sold due to lower zircon production / mined grade. The increased revenue in comparison to last year is driven by first bulk ilmenite sales in 2017, additional garnet concentrate revenue generated following execution of the Amended Garnet Offtake Agreement with GMA in April 2017 and improved pricing for ilmenite, zircon and rutile, partially offset by lower non-magnetic zircon/rutile concentrate revenue due to lower zircon and rutile mined grades.

Tormin shipments/sales for 2017 were 23,152 wet metric tonnes of zircon/rutile non-magnetic concentrate, 275,000 wet metric tonnes of bulk ilmenite concentrate, 7,098 of bagged ilmenite sales and 240,000 dry metric tonnes of garnet concentrate stockpiled on GMA's behalf. Additional revenue was generated by the shipment of 51,077 wet metric tonnes of garnet concentrate previously stockpiled at the Tormin mine site on GMA's behalf.

The Revenue to Cost of Goods Sold Ratio for the 2017 financial year was 1.46 as compared to a budgeted 1.19 and a 2016 financial year result of 1.64. The 2017 decrease against 2016 is a reflection of the product mix change towards bulk concentrates, irrespective of high sales prices and lower unit costs achieved in 2017.

Tormin - Work-in-Progress and Final Concentrate Inventory

The Company is pleased to be able to report that holdings of work-in-progress ("WIP") and finished goods on hand at 31 December 2017 are the highest since commencement of operations at Tormin, and will further assist in underpinning future production performance, sales/shipments and operating cash generation. These stock holdings are summarised as follows:

Work-in-Progress and Final Concentrate Products	WIP & Finished Goods at 31 December 2017
Run of Mine Ore Stockpile (total tonnes - Tormin processing plant)	35,568
Heavy Mineral Concentrate Stockpile (total tonnes - Tormin processing plant)	93,421
Zircon / Rutile Concentrate Bagged (total tonnes - Tormin, Cape Town or in-transit)	1,362
Ilmenite Concentrate Stockpiles (total tonnes - Tormin, Saldanha Bay or in-transit)	26,584
Garnet Concentrate Stockpiles (total tonnes - Tormin, Koekenaap, Saldanha Bay, in-transit or held on behalf of GMA)	684,882

Directors' report (continued)

Review of operations (continued)

Tormin - Resource

As released to the ASX on 28 February 2018, the annual Tormin Resource Review work was completed during February 2018, with results as follows:

Category	Resource Million Tonnes	Total Heavy Mineral ⁽¹⁾ (% in Resource)	Ilmenite (% in Resource)	Zircon (% in Resource)	Rutile (% in Resource)	Garnet (% in Resource)
Indicated Resources – Dec 2013	2.70	49.40%	10.6%	3.4%	0.7%	25.30%
Tonnes Mined - 2014	1.07	53.83%	17.26%	4.76%	0.65%	31.16%
Inferred Resources – Dec 2014	2.70	38.14%	10.05%	2.21%	0.46%	25.22%
Tonnes Mined - 2015	1.62	49.57%	16.15%	3.88%	0.60%	28.94%
Inferred Resources – Dec 2015	2.70	28.01%	6.97%	1.56%	0.55%	18.54%
Tonnes Mined - 2016	1.81	45.97%	12.97%	2.78%	0.61%	29.21%
Inferred Resources – Dec 2016	1.80	28.08%	6.15%	1.65%	0.53%	18.99%
Tonnes Mined - 2017	2.05	27.57%	5.81%	1.10%	0.50%	19.40%
Inferred Resources – Dec 2017	1.80 ⁽²⁾	15.92%	2.72%	0.79%	0.43%	11.45%

(1) Includes other valuable heavy minerals e.g. Leucoxene and Magnetite

(2) 5% Heavy Mineral ("HM") cut-off grade used

Since commencement, the Company has mined in excess of 6.55 million tonnes. The tonnage mined is more than the original declared resource tonnage (2.70 million tonnes), which is indicative of the replenishment nature of the resource where resource blocks are mined more than once per year.

The inferred resources tonnage remains at 1.80 million tonnes. Resource replenishment is occurring but at a rate that is slower than the mining rate. The Company is unable to report a replenishment grade or quantity under the 2012 JORC code. The Company continues to conduct grade reconciliation and sample grading on a daily basis as part of the mining operation to correlate between stated resource and actual resource in terms of quantity, grade and replenishment.

The resource grade has lowered and total heavy mineral content is now 15.92% at a cut-off grade of 5% HM.

The nature of the resource replenishment is typical of modern day beach placer deposits found along the West Coast of South Africa and the South-Eastern Tamil Nadu coast of India.

The Company is confident that with the grant of additional identified onshore and northern beach mining and prospecting areas currently under application, that the additional mining areas will allow the current beach mining areas to replenish.

Tormin – Mining and Prospecting Activities

The Company, via its 50% owned South African subsidiary MSR, submitted a Section 102 Extended Mining Rights Amendment Application ("Section 102 Application") to the Department of Mineral Resources ("DMR") Western Cape Region on 26 April 2017. This Section 102 Application sought to extend the existing Tormin Mining Right to include the beaches to the north of its existing beach mining rights and an identified mineral sands inland strandline located on the Company owned Geelwal Karoo freehold farm (on which the Tormin processing plant is also located).

On 23rd November, the Company received advice from the DMR that the Section 102 Environmental Authorisation Application ("EAA") was refused for reasons that were not transparently clear. Subsequently, the Company sought legal advice and was advised that the DMR's position could be challenged. The Company has decided not to proceed with court action or appeal the decision and has, after consultation, elected to submit a Section 24G Application which deals with non-authorised activities under its National Environmental Management Act (Act 107 of 1998) ("NEMA") and approved Environmental Management Program ("EMPr"). In addition, this will allow for the resubmission of the NEMA environmental authorisation associated with its Section 102 Application, which the Company will now be resubmitting in the first quarter of 2018, and which was formally refused on 13th December 2017 by the DMR.

Directors' report *(continued)*

Review of operations *(continued)*

Tormin – Mining and Prospecting Activities *(continued)*

The Company holds significant tenure under application including applications which cover prospective inland strand occurrences which extend approximately 20km to the north and approximately 10km to the south of its current Tormin operations. These prospecting rights have been under application since 2016. The Company has also sought clarity with the DMR on the status of its current prospecting right applications and continues to believe that the assessment of the prospecting rights will be positively progressed in the first quarter of 2018.

The Company has also met with the Minerals and Petroleum Sub-Committee Board ("MPSCB") regarding the ongoing sustainability of the Company's Tormin mine operations. The MPSCB is a designated sub-committee which engages direct with mining companies and reports directly to the Minister of Mines, with the aim to support and sustain mining operations within South Africa. This initiative, supported collectively by all stakeholders, is specifically designed to identify, assist and remedy hurdles that impede mining operations.

Xolobeni Mineral Sands Project

The Company advised midway through the 2016 year that it had entered into a Memorandum of Understanding ("MOU") for the Xolobeni Mineral Sands Project ("Xolobeni Project") with its BEE Partner, Keysha Investments 178 Pty Ltd ("Keysha"), to divest its 56% interest in Transworld Energy and Resources (SA) Pty Ltd ("TEM"), the entity which owns the Xolobeni Project, to Keysha on terms to be agreed between the parties.

In June 2017, the Minister for Mines finally gazetted the moratorium, which he had previously announced in 2016, which prevents any mining or prospecting applications being processed on the Xolobeni project mine area for the next 18 months, or until the Minister is satisfied that the community conflict between the pro and anti-mining groups has been resolved. This has resulted in a delay in completion of the Sale Agreement and divestment.

The Company continues to engage with Keysha, related stakeholders and relevant authorities to facilitate and finalise the sale process. The Company fully supports the ongoing development of the Xolobeni Project and its decision to divest is in no way a reflection of its commitment to its mining interests in South Africa. It is expected that this due process will take some time to finalise to ensure all stakeholders are fully apprised of the related issues.

Munglinup Graphite Project

MRC Graphite Pty Ltd ("MRCG"), a wholly owned subsidiary of the Company, and Gold Terrace Pty Ltd ("GT") formally finalised and executed the Munglinup Graphite Project Farm-in and Joint Venture Agreement ("Munglinup JV Agreement") on 20 November 2017. The Joint Venture provides for exploration and development of a natural flake graphite mining operation at Munglinup near Esperance in Western Australia.

The Munglinup JV Agreement formalised the executed Binding Term Sheet as announced on 11 and 13 September 2017, whereby MRCG and GT agreed to enter into a joint venture, and outlined the terms and conditions in which the joint venture will conduct exploration and studies, including possible early works, up until and including a decision to mine is made for the development of a graphite operation on the Munglinup tenements.

MRCG's initial ownership under the Munglinup JV Agreement will be 51%. MRCG will now expediently move towards 90% ownership during the course of 2018 via fulfilment of the conditions required by the Munglinup JV Agreement, predominantly the completion of a feasibility study.

The completion of a scoping study ("Scoping Study" or "Study") during December 2017 and the resultant preliminary economics underpin a near term project development profile for the Project. As a result, MRCG has already commenced a comprehensive metallurgical testwork and drilling program required for a Pre-Feasibility Study (PFS), with delivery of the PFS anticipated in March 2018.

The results of the Munglinup Scoping Study, as released to the ASX on 27 November 2017, demonstrate a viable low capital, low operating cost operation. Munglinup's annual average graphite concentrate production target of approximately 56,000tpa greatly benefits from the exceptionally high graphite grades and excellent infrastructure commensurate with a project in one of the world's best mining jurisdictions.

Directors' report (continued)

Review of operations (continued)

Munglinup Graphite Project (continued)

The key results of the Scoping Study are summarised as follows:-

NPV	Mid Case Average Operating Cash Cost	Total Development CAPEX	Average Annual Conc. Production	Total Mine Life	Project Free Flow Cash Generation
A\$150M	A\$528/t	A\$47M	56kt	9 years	A\$270M

The results of the Scoping Study demonstrate the potential for the Munglinup Project to support a very low capital and operating cost operation with annual graphite concentrate production of approximately 56,000 tonnes per annum over an initial mine life of 9 years and payback of under 2 years.

Indicative NPV and IRR (post tax) ranges from the Munglinup Scoping Study

Graphite Pricing / Flake Distribution	Indicative NPV (AUD\$M) / IRR					
	Conservative		Balanced		Aggressive	
	NPV	IRR	NPV	IRR	NPV	IRR
Low - 10 Year Pricing Low	\$38M	26%	\$77M	41%	\$106M	52%
Mid - Cannacord Long Term Average	\$102M	50%	\$150M	67%	\$187M	79%
High - Peer Company Average	\$193M	81%	\$257M	100%	\$313M	117%

The Scoping Study results further demonstrated that by any peer analysis, the Munglinup Project is a high-grade world class asset with all key operating parameters falling within the most favourable quartile. Excellent metallurgical results from recent testwork confirms high-quality (averaging above 95% TGC and up to 97.4% TGC) graphite flake concentrates, with better than expected recoveries averaging 86% and up to 88.3%.

The current market fundamentals in the renewable energy sector and EV market and the advanced stage of the Project are compelling and support an accelerated project development timetable. Importantly, the Project is set aside from the majority of its peers by being in a Tier 1 mining jurisdiction and close to all required infrastructure.

In December 2017 MRCG and Doral Fused Materials Pty Ltd ("Doral"), a wholly owned subsidiary of Iwatani Corporation, finalised and executed a MOU for the formal assessment of the Doral Fused Alumina Plant in the Kwinana Industrial Zone in Western Australia as a possible site for further downstream processing of natural flake graphite concentrate produced from the Company's Munglinup Graphite Project. The MOU with Doral will allow MRCG exclusive access to the Doral site for a period of 12 months to undertake a study to determine the suitability of the site for the thermal purification, spheroidisation and coating of natural flake graphite to produce 99.95% graphitic anode material in Western Australia.

Iran

The Company has been actively establishing its presence in Iran during 2017 and has appointed Mr Bahman Rashidi as the in-country Iranian General Manager. Mr Rashidi is a highly qualified geologist with a Master's degree in Economic Geology.

The Company has reviewed in excess of 31 green-fields, brown-fields and operating mining projects to date and has concluded transactions on Tuzlar and Asbkhan. The Company is confident that several more transactions will be finalised from its initial reconnaissance to date. The Company has a fully funded exploration budget out of its current operational cashflow of \$2.4 million for 2018.

The Company has entered into an agreement, subject to due diligence, to acquire up to 73.5% shareholding in the privately owned Tuzlar Gold Mining and Industry Company ("Tuzlar"). An initial investment of 22.8% of the equity in Tuzlar will cost \$0.68 million, and the Company has an option to acquire an additional 50.7% for a cost of \$2.53 million. The Company may exercise the option to acquire the additional 50.7% after completing a detailed exploration program. Tuzlar is an operating gold mine located on a granted Mining Licence over 14km² which historically has produced 2,000ozs to 3,000ozs of gold per annum.

Directors' report *(continued)*

Review of operations *(continued)*

Iran *(continued)*

The detailed exploration program for Tuzlar will include systematic surface sampling and mapping, geophysics including induced polarization (IP), magnetic surveys, reconnaissance and deep drilling of the central part of the licence area targeting a high sulphidation magmatic system as well as deep drilling around the gold bearing quartz veins that are currently being mined by the existing owners in the western part of the licence area. The estimated cost of the exploration program is approximately \$0.5 million.

The Company has the right to a 75% stake in the Asbkhan Joint Venture Company which is a special purpose vehicle established to own the Asbkhan copper-gold project. The Company's earn-in will be by the completion of phase 1 exploration to test the potential of the area. Asbkhan is a privately owned copper-gold exploration project located in East Azerbaijan province in North Western Iran covered by a granted Mining Licence over an area of 6km². Exploration will consist of surface sampling from trenches, benches, and outcrops, ground geophysical surveys (IP) and follow up reconnaissance core drilling. The estimated budgeted expenditure for 2018 is \$0.5 million.

The Company has also entered into a Non-Exclusive MOU with the Iran Minerals Production and Supply Company ("IMPASCO") to review and access all opportunities relating to the exploration, extraction, and processing and investment commercialisation of projects under IMPASCO management. IMPASCO is a subsidiary of the Iranian Mines and Mining Industries Development and Renovation Organisation ("IMIDRO"), and is a leading minerals holding company in Iran. The MOU provides for the Company to tender on advanced Gold/Copper and Brine/Potash Projects which IMPASCO is intending to commercialise.

An MOU has also been signed with the Geological Survey of Iran ("GSI") to explore country wide for base and precious metals including gold, lead, zinc, copper, mineral sands, potash and lithium deposits. The GSI holds large parcels of land for exploration with an extensive database of geological, geochemical and geophysical information. The MOU provides for the Company to access all data and information held by the GSI. The Company and GSI will work collaboratively to collect, categorise as well as interpret with modern exploration technology, all existing data held by the GSI with an intention of further developing exploration and exploitation of mineral opportunities.

Australian Exploration

By December 2017, the Company via its wholly owned subsidiary MRC Exploration Australia Pty Ltd ("MRCEA"), has lodged six new exploration licences and entered into a Joint Venture in Western Australia on another exploration tenement. The Company is targeting lithium (Yandeyarra Prospect), channel iron (Glen Florrie Prospect) and gold-copper deposits (Doolgunna and Cave Hill Prospects).

The Yandeyarra Prospect includes four exploration applications lodged over an area covering 876km² of prospective ground for hard rock lithium pegmatites 20km southwest from the Wodgina lithium mine operated by Mineral Resources Limited and 50km southwest from the Pilgangoora Lithium-Tantalite projects under development by Pilbara Minerals Limited and Altura Mining Limited.

The Glen Florrie Prospect includes one exploration application over channel iron deposit 160km southeast from Onslow, with historical drilling results including numerous additional channel iron deposit (CID) targets.

The Doolgunna Prospect includes one granted exploration licence with an executed Farm-in Agreement for MRCEA to acquire up to 90% interest in the tenement covering 62km². The Cave Hill Prospect includes one exploration application lodged over 150km². Doolgunna & Cave Hill areas are both over highly prospective near surface stockwork gold with historical workings and copper anomalies along strike from De Grussa copper mine in the Narracoota Volcanics and Goodin Fault.

Exploration works in these areas involves an A\$1.5 million fully funded minimum commitment over the next two years.

Corporate and Financial

At 31 December 2017, the Company had \$11.0 million in cash, with trade and other receivables of \$6.1 million.

The \$4.5 million loan facility obtained from GMA to finance the GSP was fully drawn by year end. Repayments on and interest charges against the facility commenced in June 2017, with the loan balance \$3.625 million as at 31 December 2017. At the beginning of the year, the Company advised that shareholder loans from two of its largest shareholders, Au Mining Ltd and Regional Management Pty Ltd, totalling approximately \$1.1 million were repaid in full.

The Company's overdraft facility limit of \$0.6 million (A\$0.7 million) was undrawn as at 31 December 2017.

Directors' report (continued)

Review of operations (continued)

Consolidated result and financial position

The profit of the Group after income tax and non-controlling interests was \$9.9 million (2016: \$3.8 million).

Revenue for the year was \$62.6 million (2016: \$27.1 million), with profit before income tax expense of \$14.0 million (2016: \$6.6 million). The sales revenue for 2017 was \$60.9 million, above both the budgeted \$52.7 million and prior year's \$26.9 million.

The net assets of the Group have increased from \$36.1 million as at 31 December 2016 to \$45.9 million as at 31 December 2017.

Outlook

Concentrate production guidance for the forthcoming full year 2018 is in the order of:

Final Concentrate Production	FY2018 Production Guidance Range
Zircon / Rutile Concentrate (dry metric tonnes)	20,000 – 25,000
Ilmenite Concentrate (dry metric tonnes)	100,000 – 130,000
Garnet Concentrate (dry metric tonnes)	350,000 – 450,000

Sales / shipment guidance for FY2018 is in the order of:

Final Concentrate Sales	FY2018 Sales Guidance Range
Zircon / Rutile Concentrate (wet metric tonnes)	20,000 – 25,000
Ilmenite Concentrate (wet metric tonnes)	100,000 – 120,000
Garnet Concentrate Stockpiled (dry metric tonnes)	210,000
Garnet Concentrate Shipped (dry metric tonnes)	160,000

Tormin operations will continue to focus on optimising the mining and processing value chain to deliver results in line with 2017 results. In addition, a concerted effort will be made to secure a definable deliverable date with the DMR to the Company's current pending Section 102 application and prospecting right applications.

The Company recognises it will need to continue to work with the issues surrounding mining a replenishing beach and the uncertainties relating to replenishment quantities and grade. Mitigation management includes the adjustment of mining rates to allow sufficient time for the active beach mining areas to replenish, which may result in the scaling back of operations at various periods throughout the year and increasing production from the amphibious excavator that will allow access to the previously unmined portions of the resource which sit within the perimeter of the lower tidal boundaries and surf zone.

Management will drive the completion of the Pre-Feasibility and Feasibility Studies for the Munghup Graphite Project and expedite the requisite regulatory approvals to fast track this project to development.

Significant changes in the state of affairs

Details of the year's operational performance and the resulting financial impact is set out in the review of operations above.

No event or transaction has arisen in the interval between the end of the financial year and the date of this report of a material and unusual nature likely, other than what has been disclosed elsewhere in this financial report, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations or the state of affairs of the Company or the Group in future financial years unless otherwise disclosed in this Directors' Report.

Events since the end of the financial year

Other than disclosed in the review of operations above, there have been no other material matters arising subsequent to the end of the financial year.

Directors' report (continued)

Likely developments and expected results of operations

Likely developments in the operations of the Group that were not finalised at the date of this report are included in the review of operations above and as detailed in the Outlook section.

The Board will continue to review other projects and opportunities in the interests of increasing shareholder value.

Environmental regulation

The Group is subject to various environmental regulations in respect to its exploration, development and production activities.

In the course of its normal mining and exploration activities, the Group adheres to all environmental regulations imposed upon it by the relevant regulatory authorities, particularly those regulations relating to ground disturbance and the protection of rare and endangered flora and fauna.

Schedule of mining and prospecting tenements

Mining and prospecting tenements currently held or under application by the Group are:

Country	Location	Right / Tenement Number	Type of Right / Tenement	Status	Beneficial Interest
South Africa	Tormin	(WC)30/5/1/1/2/10261 PR	Prospecting	Under Application	100%
	Tormin	(WC) 30/5/1/1/2/10262 PR	Prospecting	Under Application	100%
	Tormin	(WC)30/5/1/2/2/163 MR	Mining	Approved	100%
	Tormin	(WC) 30/5/1/1/2/10259 PR	Prospecting	Under Application	100%
	Tormin	(WC)30/5/1/2/2/162 MR	Mining	Approved	100%
	Tormin	(WC)30/5/1/1/2/10036 PR	Prospecting	Approved	100%
	Tormin	(WC)30/5/1/1/2/10199 PR	Prospecting	Approved	100%
	Tormin	(WC)30/5/1/1/2/10226 PR	Prospecting	Closed	100%
	Tormin	(WC)30/5/1/1/2/10229 PR	Prospecting	Closed	100%
	Tormin	(WC)30/5/1/1/2/10240 PR	Prospecting	Under Application	100%
South Africa	Xolobeni	EC30/5/1/1/2/6 PR	Prospecting	Closed – Converting to Mining Right	100%
	Xolobeni - Kwanyana block	EC30/5/1/1/2/10025 PR	Prospecting	Subject to moratorium - Converting to Mining Right	100%
	Xolobeni	EC30/5/1/1/2/10025 MR	Mining	Subject to moratorium - Under Application	100%
Australia	Munglinup	M74/245	Mining	Granted, In Transfer	51% (Option to acquire 90%)
	Munglinup	E74/505	Exploration	Granted, In Transfer	51% (Option to acquire 90%)
Australia	Yandeyarra	E47/3884	Exploration	Under Application	100%

Directors' report (continued)

Schedule of mining and prospecting tenements (continued)

Country	Location	Right / Tenement Number	Type of Right / Tenement	Status	Beneficial Interest
	Yandeyarra	E47/3885	Exploration	Under Application	100%
	Yandeyarra	E47/3916	Exploration	Under Application	100%
	Yandeyarra	E45/5109	Exploration	Under Application	100%
Australia	Doolgunna	E51/1766	Exploration	Granted	0% (Option to earn-in to 90%)
Australia	Cave Hill	E51/1867	Exploration	Under Application	100%
Australia	Glen Florrie	E08/2963	Exploration	Under Application	100%

Greenhouse gas and energy data reporting requirements

The Directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report annual greenhouse gas emissions and energy use in Australia. For the measurement period, the Directors have assessed that there are no current reporting requirements, but may be required to do so in the future.

Information on Directors

Mark Victor Caruso	Executive Chairman and Chief Executive Officer	Age 56
--------------------	---	--------

Experience and expertise

Mr Mark Caruso has extensive experience in mining, earthmoving and civil engineering construction earthworks. He has been a Director of the Company since September 2000. He was previously Chairman of Allied Gold Mining PLC ("AGMP"), responsible for the delivery of the Gold Ridge Project in the Solomon Islands and the Simberi Gold Project in Papua New Guinea. After resigning from AGMP, he transitioned into the position of Executive Chairman of the Company in August 2012.

Other current directorships

Perpetual Resources Limited
Connexion Media Limited

Former directorships in the last 3 years

None

Special responsibilities

Chairman of the Board
Chief Executive Officer

Interests in shares and options

79,164,228 ordinary shares in the Company – indirect holding¹
15,784 ordinary shares in the Company – direct holding
5,000,000 options over ordinary shares in the Company

Directors' report (continued)

Information on Directors (continued)

Joseph Anthony Caruso	Non-Executive Director	Age 72
------------------------------	-------------------------------	---------------

Experience and expertise

Mr Joseph Caruso was appointed as Non-Executive Director of the Company in September 2000. He is a director of Zurich Bay Holdings Pty Ltd and Construction Manager of Simto Australia Pty Ltd, both of which are involved in mining, earthmoving and civil engineering construction earthworks. He has considerable experience in managing and administration of engineering, mining, raw materials production operations, earthmoving and related infrastructure utilities services resource contracts.

Other current directorships

None

Former directorships in the last 3 years

None

Special responsibilities

Member of the Remuneration and Nomination Committee

Interests in shares and performance rights

77,007,485 ordinary shares in the Company ¹

1,000,000 performance rights over ordinary shares in the Company

¹ J A Caruso and M V Caruso are both directors of and have a relevant interest in Zurich Bay Holdings Pty Ltd, which holds 77,007,485 shares in the Company. Mr Mark Caruso also holds shares indirectly through Regional Management Pty Ltd and Property and Equity Nominees Pty Ltd.

Peter Patrick Torre CA, AGIA, MAICD	Non-Executive Director and Company Secretary	Age 46
--	---	---------------

Experience and expertise

Mr Torre was appointed Company Secretary of the Company in July 2006, and as a Director of the Company on 1 April 2010. He is a Chartered Accountant, a Chartered Secretary and a member of the Australian Institute of Company Directors. He was previously a partner of an internationally affiliated firm of Chartered Accountants. Mr Torre is the Company Secretary of several ASX listed companies.

Other current directorships

Connexion Media Limited
Volt Power Group Limited

Former directorships in the last 3 years

WestStar Industrial Ltd

Special responsibilities

Company Secretary and member of the Audit, Compliance and Risk Committee

Interests in shares and performance rights

625,000 ordinary shares in the Company

1,000,000 performance rights over ordinary shares in the Company

Guy Redvers Walker BCA, CA, CFA, CMInstD	Non-Executive Director	Age 48
---	-------------------------------	---------------

Experience and expertise

Mr Walker is a highly accomplished director and senior investment management executive with over 21 years' financial markets experience. He currently and in the past has sat on the boards of listed mining companies including exploration, development and production companies. He has extensive experience in capital raising through both traditional banks and alternative lenders.

Other current directorships

Metals Exploration plc

Directors' report (continued)

Information on Directors (continued)

Former directorships in the last 3 years

Bacanora Minerals Ltd
ENK PLC
Navigator Resources Limited

Special responsibilities

Non-Executive Director, Chairman of the Audit, Compliance and Risk Committee and member of the Remuneration and Nomination Committee

Interests in shares and performance rights

200,000 ordinary shares in the Company
1,000,000 performance rights over ordinary shares in the Company

Colin Ross Hastings BSc (Geology), MSc (Economic Geology), MAusIMM	Independent Non-Executive Director	Age 67
---	---	---------------

Experience and expertise

Mr Ross Hastings was appointed as a non-executive Director in April 2015. He is a geologist with over 31 years' experience in mining and exploration, project generation and project development, covering Australia and overseas. He has a strong geotechnical background with 10 years' experience in this field and has extensive experience in mining related disciplines and processes. From 1996 to 2014, Mr Hastings was involved with Allied Gold PLC's Simberi Gold Project where his roles included management of exploration and the feasibility and pre-development studies for mine construction. Mr Hastings then progressed to General Manager Resource Development and concluded his tenure at St Barbara subsequent to the merger between it and Allied Gold Mining PLC.

Other current directorships

Perpetual Resources Limited

Former directorships in the last 3 years

None

Special responsibilities

Chairman of the Remuneration and Nomination Committee and member of the Audit, Compliance and Risk Committee

Interests in shares and performance rights

150,000 ordinary shares in the Company
1,000,000 performance rights over ordinary shares in the Company

Directors and Key Management Personnel Shareholdings

The relevant interest of each Director and key management personnel in the share capital of the Company, shown in the Register of Directors' and Key Management Personnel Shareholding at the date of the Directors' Report is as follows:

		Balance as at 1 January 2017	Received as remuneration	Increase as a result of options exercised	Purchased on market	Balance as at 31 December 2017
Mark Caruso	• Indirect	78,554,014	-	-	610,214	79,164,228
	• Direct	15,784	-	-	-	15,784
Joseph Caruso		77,007,485	-	-	-	77,007,485
Peter Torre		625,000	-	-	-	625,000
Guy Walker		125,000	-	-	75,000	200,000
Ross Hastings		-	-	-	150,000	150,000
Tony Sheard		150,000	-	-	100,000	250,000
Surinder Ghag		-	-	-	-	-
Bahman Rashidi		-	-	-	-	-

Directors' report (continued)

Information on Directors (continued)

Meetings of Directors

The number of meetings of the Company's Board of Directors and each of the Board committees held during the year ended 31 December 2017, and the number of meetings attended by each Director were:

Name	Directors' Meetings		Meetings of committees			
			Audit, Compliance and Risk		Remuneration and Nomination	
<i>Number of meetings held</i>						
<i>A being total of meetings eligible to attend</i>	A	B	A	B	A	B
<i>B being total of meetings actually attended</i>						
Mark Victor Caruso	6	6	0	0	0	0
Joseph Anthony Caruso	6	5	0	0	4	4
Peter Patrick Torre	6	6	4	4	0	0
Guy Redvers Walker	6	6	4	4	4	4
Colin Ross Hastings	6	6	4	4	4	4

Other matters of Board business have been resolved by circular resolutions of Directors, which are a record of decisions made at a number of informal meetings of the Directors held to control, implement and monitor the Company's activities throughout the year.

Remuneration report (Audited)

This remuneration report sets out the remuneration information for the Company's non-executive Directors, executive Directors, other key management personnel and the key executives of the Group and the Company. The remuneration report is set out under the following main headings:

- A. Principles used to determine the nature and amount of remuneration
- B. Details of remuneration
- C. Service agreements
- D. Share-based compensation
- E. Additional information
- F. Other transactions with key management personnel

A. Principles used to determine the nature and amount of remuneration

In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations, the Board reviews the remuneration packages of all key management personnel, if any, on an annual basis and makes recommendations. Remuneration packages are reviewed with due regard to performance and other relevant factors.

Remuneration packages may contain the following key elements:

- (a) Directors' fees;
- (b) Salary and consultancy; and
- (c) Benefits, including the provision of a motor vehicle and superannuation.

Fees payable to non-executive Directors reflect the demands which are made on, and the responsibilities of the Directors. The Board reviews non-executive Directors' fees and payments on an annual basis. The non-executive Directors fee pool was set at \$500,000 on 30 May 2008 at the Annual General Meeting. Non-Executive Director fees are paid with an aggregate limit (currently \$500,000) which is approved by the shareholders from time to time. Non-Executive Directors serve in accordance with a standard letter of appointment which sets out the remuneration arrangements.

Executives are offered a competitive base pay which is reviewed annually to ensure the pay is competitive with the market.

There were short term cash incentives provided to the Executive Chairman, Chief Financial Officer ("CFO") and Technical Services Manager ("TSM"). Long-term incentives are provided to Directors and other key management personnel to incentivise them to deliver long-term shareholder returns.

Directors' report (continued)

Remuneration report (Audited) (continued)

A. Principles used to determine the nature and amount of remuneration (continued)

These are determined based on what the Board views as reasonable based on market conditions. Any grant of securities to Directors of the Company must be approved by shareholders in a general meeting.

The Directors are not required to hold any shares in the Company under the constitution of the Company; however, to align Directors' interests with shareholders' interests, the Directors are encouraged to hold shares in the Company.

As at 31 December 2017, the short term cash bonus incentives are up to 25% of base pay calculated on Company performance and other key performance indicators. Directors' fees are fixed.

	2017	2016	2015	2014	2013	2012	2011	2010
Profit/(loss) for the year after tax (USD)	9,932,930	3,777,834	10,576,785	8,376,344	(1,569,980)	(1,233,344)	(2,206,055)	(1,494,207)
Closing share price (AUD)	13.0 cents	13.0 cents	10.0 cents	11.0 cents	18.5 cents	9.9 cents	7.5 cents	8.1 cents
Dividends paid (AUD)	6,884,012	4,049,416	-	-	-	-	-	-

Voting and comments made at the Company's 2016 Annual General Meeting

The Company received the unanimous support of shareholders present on the remuneration report at the AGM for the 2016 financial year and 99.97% of proxy votes were in favour of the resolution to approve the remuneration report. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

B. Details of Remuneration

The key management personnel of the Group are:

- the Directors of the Company;
- Mr Logan Francis, the Chief Operating Officer ("COO"), appointed on 17 October 2016, resigned on 24 May 2017;
- Mr Tony Sheard, the Chief Financial Officer;
- Mr Surinder Ghag, the Technical Services Manager, appointed on 4 September 2017;
- Mr Bahman Rashidi, the General Manager – Iran, appointed on 1 October 2017;

The amounts disclosed are applicable for the Company.

Details of the remuneration of Directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of the Company are set out in the following tables. Non-cash benefits in the form of performance rights were provided to directors during the 2016 financial year and to the CFO in the 2017 financial year. The following fees are applicable to Directors and key management personnel of the Company.

Directors' report (continued)

Remuneration report (Audited) (continued)

B. Details of Remuneration (continued)

Name	Year	Cash salary (A\$)	Cash bonus (A\$)	Annual and long service leave (A\$)	Post-employment benefits (A\$)	Share-based payments (Options & Performance rights) (A\$)	Totals (A\$)	Percentage performance based (%)	Share based payments as a percentage of remuneration (%)
Directors									
<i>Executive Chairman</i>									
Mark Caruso ¹	2017	580,168	150,000	42,613	19,832	17,684	810,297	18.5	2.2
	2016	581,516	120,000	19,902	18,484	76,298	816,200	14.7	9.3
Joseph Caruso	2017	63,927	-	-	6,073	37,795	107,795	-	35.1
	2016	63,927	-	-	6,073	22,780	92,780	-	24.6
Peter Torre	2017	150,000	-	-	-	37,795	187,795	-	20.1
	2016	150,000	-	-	-	22,780	172,780	-	13.2
Guy Walker	2017	80,000	-	-	-	37,795	117,795	-	32.1
	2016	80,000	-	-	-	22,780	102,780	-	22.2
Ross Hastings ²	2017	83,409	-	-	6,941	37,795	128,145	-	29.5
	2016	79,803	-	-	8,676	22,780	111,259	-	20.2
Total Director Remuneration	2017	957,504	150,000	42,613	32,846	168,864	1,351,847	11.1	12.5
	2016	955,246	120,000	19,902	33,233	167,418	1,295,799	9.3	12.9
<i>Other Key Management Personnel</i>									
Tony Sheard	2017	253,930	68,750	2,848	21,070	33,927	380,525	18.1	8.9
	2016	252,288	55,344	2,827	21,548	13,384	345,391	16.0	3.9
Logan Francis (appointed 17 October 2016, resigned 24 May 2017)	2017	99,217	-	11,168	8,173	-	118,558	-	-
	2016	56,503	-	5,289	4,099	-	65,891	-	-
Surinder Ghag (appointed 4 September 2017)	2017	57,430	17,372	5,868	6,029	-	86,699	20.0	-
Bahman Rashidi (appointed 1 October 2017) ³	2017	102,695	-	-	3,904	-	106,599	-	-
Total Key Management Personnel Remuneration	2017	1,470,776	236,122	62,497	72,022	202,791	2,044,206	11.6	9.9
	2016	1,264,037	175,344	28,018	58,880	180,802	1,707,081	10.3	10.6

Note 1 - Mr Caruso received non-monetary benefits in addition to the remuneration above for personal insurance of A\$59,882 (2016: A\$59,882) and a driver for business use of A\$47,618 (2016: A\$40,157). Mr Caruso, as a working director, is not personally insured under the Group's insurance policies for accident, injury or death.

Note 2 - Mr Hastings has provided consulting services to one of the Company's projects during the year ended 31 December 2017. Consultancy fees have been included in his cash salary. Comparatives have been reclassified to conform to current year presentation.

Note 3 - Mr Rashidi was a consultant to the Company prior to becoming an employee on 1 October 2017. Consultancy fees have been included in his cash salary.

Directors' report (*continued*)

Remuneration report (Audited) (*continued*)

B. Details of Remuneration (*continued*)

Other short and long term benefits forming part of the service agreements are detailed below:

Cash bonus

The Executive Chairman was entitled to an annual bonus of 25% of the Base Remuneration, measured against the following criteria, 20% weighting for each:

1. Mine production against budget;
2. Positive progress towards the review of the Tormin Mining Rights;
3. Achieving Budget Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") taking into account uncontrollable variables at the discretion of the Board;
4. Achieving ilmenite sales per Budget; and
5. Signing an Agreement to enter into a binding term sheet for an alternative project to diversify.

Future bonuses of the Executive Chairman will be at the sole discretion of the Board.

The measurable objectives were chosen to ensure the Executive Chairman was incentivised to meet budgeted production and EBITDA; secure offtake agreements for the Company's remaining product not currently being sold into the market and to progress the Company's strategy of diversifying from its mineral sands projects in South Africa.

The Chairman of the Remuneration and Nomination Committee assessed the performance of the Executive Chairman, and reviewed his performance against the above set measurable objectives, taking into account other mitigating factors throughout the year. The Remuneration and Nomination Committee has reviewed the assessment and awarded 100% of the full bonus of 25% of the Base Remuneration.

As the COO, Logan Francis, only commenced employment on 17 October 2016 and resigned 24 May 2017, there is no entitlement to any cash bonus for the 2017 year.

The CFO, Tony Sheard, was entitled to an annual bonus of 25% of the Base Remuneration, measured against the following criteria, one third weighting for each:

1. Performance against scope of services set out in the employment contract at the sole discretion of the Executive Chairman;
2. Board Reporting within set timing each month; and
3. Achieving EBITDA against budget taking into account uncontrollable variables at the discretion of the Board.

Future bonus of the CFO will be at the sole discretion of the Board.

The measurable objectives were chosen to ensure the CFO were incentivised to meet budgeted EBITDA; to ensure the CFO performed each of the tasks outlined in his employment contract which are typical of that for a CFO position, and timely reporting to the Board to ensure business decisions can be made on a timely and informed basis.

The Executive Chairman assessed the performance of the CFO against the above measurable objectives and awarded 100% of the full bonus of 25% of the Base Remuneration.

The Technical Services Manager, Surinder Ghag, was entitled to an annual bonus of 25% of the Base Remuneration, measured against the following criteria, 25% weighting against each of:

1. Tormin processing plant performance recoveries and throughput rates against budget;
2. Tormin HMC expansion progress against agreed project plan and deliverables;
3. Diversification projects progress against agreed project plan and deliverables; and
4. Achieving EBITDA against budget taking into account uncontrollable variables at the discretion of the Executive Chairman.

Future bonus of the Technical Services Manager will be at the sole discretion of the Board.

The measurable objectives were chosen to ensure the Technical Services Manager was incentivised to meet budgeted production and EBITDA, to progress the Company's strategy of diversifying from its mineral sands projects in South Africa and to ensure the

Directors' report (continued)

Remuneration report (Audited) (continued)

B. Details of Remuneration (continued)

Technical Services Manager performed each of the tasks outlined in his employment contract which are typical of that for a Technical Services Manager position.

The Executive Chairman assessed the performance of the Technical Services Manager against the above measurable objectives and awarded 100% of the full bonus of 25% of the Base Remuneration on a pro rata basis for the year.

Relative proportions of fixed versus variable remuneration expense

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense in the previous table:

Name	Fixed Remuneration		At Risk - STI		At Risk - LTI	
	2017	2016	2017	2016	2017	2016
Directors						
<i>Executive Chairman</i>						
Mark Caruso	79%	76%	19%	15%	2%	9%
<i>Non-Executive Directors</i>						
Joseph Caruso	65%	75%	0%	0%	35%	25%
Peter Torre	80%	87%	0%	0%	20%	13%
Guy Walker	68%	78%	0%	0%	32%	22%
Ross Hastings	71%	80%	0%	0%	29%	20%
Other Key Management Personnel						
Tony Sheard	73%	80%	18%	16%	9%	4%
Logan Francis	100%	100%	0%	0%	0%	0%
Surinder Ghag	80%	-	20%	-	0%	-
Bahman Rashidi	100%	-	0%	-	0%	-

C. Service Agreements

Mark Caruso

Commencement date	6 August 2012
Term	No fixed term
Total Remuneration package	A\$600,000 per annum (inclusive of statutory superannuation), effective from 12 September 2014, and cash bonus as set out above
Termination benefits	12 months' base salary plus any payment in lieu of notice

Peter Torre

Commencement date	1 November 2012
Term	No fixed term
Total Remuneration package	A\$150,000 per annum
Termination benefits	12 months' base salary plus any payment in lieu of notice

Tony Sheard

Commencement date	1 January 2015
Term	No fixed term
Total Remuneration package	A\$275,000 per annum (inclusive of statutory superannuation) and cash bonus as set out above
Termination benefits	Nil unless constructive redundancy in which case 12 months' salary

Logan Francis

Commencement date	17 October 2016, resigned 24 May 2017
Term	No fixed term
Total Remuneration package	A\$290,000 per annum (inclusive of statutory superannuation) and cash bonus as set out above
Termination benefits	Nil unless constructive redundancy in which case 12 months' salary

Directors' report (continued)

Remuneration report (Audited) (continued)

Surinder Ghag

Commencement date	4 September 2017
Term	No fixed term
Total Remuneration package	A\$220,000 per annum (inclusive of statutory superannuation) and cash bonus as set out above
Termination benefits	Nil unless constructive redundancy in which case 12 months' salary

Bahman Rashidi

Commencement date	1 October 2017
Term	No fixed term
Total Remuneration package	A\$180,000 per annum (inclusive of statutory superannuation)
Termination benefits	Nil unless constructive redundancy in which case 12 months' salary

There are no other service agreements.

D. Share Based Compensation

Employee Options

No options were granted as remuneration during the year ended 31 December 2017. Options vested during the year are:

Mark Caruso	1,666,668
Tony Sheard	333,333

The terms and conditions of each grant of options are as follows:

Grant Date	Expiry date	Exercise price	Fair Value at grant date	Options at the start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Lapsed during the year	Balance at the end of the year	Vested at the end of the year
27 May 2015	30 May 2018	20 cents	4.90 cents	5,000,000	-	-	-	-	5,000,000	5,000,000
07 Sept 2015	31 Mar 2018	20 cents	5.40 cents	1,000,000	-	-	-	-	1,000,000	1,000,000
Total				6,000,000	-	-	-	-	6,000,000	6,000,000

Details of options over ordinary shares in the Company provided as remuneration to key management personnel are shown below:

	Balance as at 1 January 2017	Received as remuneration	Options exercised	Options lapsed	Balance as at 31 December 2017
Mark Caruso	5,000,000	-	-	-	5,000,000
Tony Sheard	1,000,000	-	-	-	1,000,000
Total	6,000,000	-	-	-	6,000,000

No options are on issue to any other key management employees.

Grant of Performance Rights

The issue of Performance Rights was approved by shareholders at a general meeting of the Company held on 25 May 2016. The Incentive Performance Rights Plan is designed to provide long-term incentives for senior managers and above (including directors) to deliver long-term shareholder returns. Performance Rights granted under the plan carry no dividend or voting rights.

The following performance rights were issued to the key management personnel during the year:

	Grant Date	Expiry Date	Barrier Price (A\$) ^	No of Performance Rights
Tony Sheard	16 August 2017	31 May 2020	20 cents	2,000,000

^ - Rights will convert to shares if the Company's share price exceeds the Barrier Price for five consecutive days.

Directors' report (continued)

Remuneration report (Audited) (continued)

D. Share Based Compensation (continued)

Grant of Performance Rights (continued)

Each performance right issued to Mr Sheard was valued at A\$0.118, with 1,500,000 rights vesting once the share price exceeds the Barrier Price for five consecutive days and the remaining 500,000 rights vesting 12 months from grant date once the share price exceeds the Barrier Price for five consecutive days.

Details of performance rights over ordinary shares in the Company provided as remuneration to key management personnel are shown below:

	Balance as at 1 January 2017	Received as remuneration	Performance rights vested	Performance rights expired	Balance as at 31 December 2017
Joseph Caruso	1,000,000	-	-	-	1,000,000
Peter Torre	1,000,000	-	-	-	1,000,000
Guy Walker	1,000,000	-	-	-	1,000,000
Ross Hastings	1,000,000	-	-	-	1,000,000
Tony Sheard	-	2,000,000	-	-	2,000,000
Total	4,000,000	2,000,000	-	-	6,000,000

E. Other transactions with key management personnel

Mine Site Construction Services ("MSCS"), a company associated with Mr Mark Caruso and Mr Joseph Caruso has provided the following services to the Company during 2017:

- Provision of executive services.

The amount paid by the Company to MSCS for the year ended 31 December 2017 was \$134,155 (2016: \$nil). This is considered to be an arm's length commercial consultancy contract at normal commercial rates.

- Provision of office space.

The amount paid by the Company to MSCS for the year ended 31 December 2017 was \$158,510 (2016: \$90,199). This is considered to be an arm's length commercial rent. There is a formal sub lease in place.

- Provision of secretarial staff to the Executive Chairman.

The amount paid by the Company to MSCS for the year ended 31 December 2017 was \$82,372 (2016: \$76,329). The amounts payable are pursuant to an Executive Service Agreement and have been reimbursed on an arm's length basis at normal commercial rates.

- Provision of technical staff.

The amount paid by the Company to MSCS for the year ended 31 December 2017 was \$288,627 (2016: \$210,413). The amounts payable have been in respect to the provision of technical staff at the Groups' head office and at the Tormin project and have been reimbursed on an arms-length basis at normal commercial rates.

- Others

The amount paid by the Company to MSCS for the year ended 31 December 2017 was \$202,267 (2016: \$127,799). The amounts payable have been in respect of telecommunication charges and miscellaneous payments made by MSCS on behalf of the Company. The amounts have been reimbursed on an arms-length basis at normal commercial rates.

As at 31 December 2017, amount payable to MSCS is \$56,721.

Directors' report (continued)

Remuneration report (Audited) (continued)

E. Other transactions with key management personnel (continued)

Ross Hastings, one of the Directors has provided consulting services to one of the Company's projects during the year ended 31 December 2017. The amount paid by the Company to Ross Hastings for the year ended 31 December 2017 was \$7,934 (2016: \$6,306). The amounts payable have been reimbursed on an arm's length basis at normal commercial rates.

Hastings Bell Pty Ltd, a Company associated with Daniel Hastings, the son of Ross Hastings has provided business development consultancy services to the Company during 2017. The amount paid by the Company to Hastings Bell Pty Ltd for the year ended 31 December 2017 was \$185,452 (2016: \$nil). This is considered to be an arm's length commercial consultancy contract at normal commercial rates.

End of the audited remuneration report

Insurance of officers

During the financial year, the Group has paid an insurance premium to insure the Directors and secretaries of the Company and its controlled entities. The provision of details in respect to the terms and conditions of the policy are prohibited from disclosure under the terms of the policy.

Proceedings on behalf of the Group

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the Audit, Compliance and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit, Compliance and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year, the following fees were paid or payable for services provided by BDO Audit (WA) Pty Ltd and BDO Tax (WA) Pty Ltd, its related practices and related firms:

	31 Dec 2017 \$	31 Dec 2016 \$
Non-audit services		
<i>Taxation and company secretarial (South African entities)</i>		
BDO Tax (WA) Pty Ltd	53,135	71,552
	<u>53,135</u>	<u>71,552</u>

Auditor

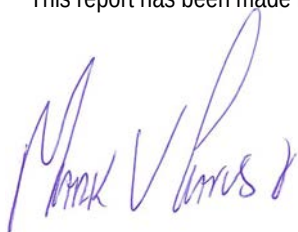
BDO Audit (WA) Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001*.

Directors' report *(continued)*

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 27 and forms part of this report.

This report has been made in accordance with a resolution of the directors.



Mark Caruso
Executive Chairman
Perth, Western Australia
28 February 2018

DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF MINERAL COMMODITIES LTD

As lead auditor of Mineral Commodities Ltd for the year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Mineral Commodities Ltd and the entities it controlled during the period.



Phillip Murdoch

Director

BDO Audit (WA) Pty Ltd

Perth, 28 February 2018

Contents

Financial statements

Consolidated income statement	29
Consolidated statement of comprehensive income	30
Consolidated balance sheet	31
Consolidated statement of cash flows	33
Consolidated statement of changes in equity	34
Notes to the consolidated financial statements	35
Directors' declaration	83
Independent auditor's report to the members	84

Consolidated income statement

For the year ended 31 December 2017

	Notes	31 Dec 2017 \$	31 Dec 2016 \$
Revenue from continuing operations			
Sale of product	2.2	60,930,269	26,872,575
Other revenue	2.2	1,677,565	245,900
		62,607,834	27,118,475
Expenses			
Mining and processing costs	2.3(i)	(43,412,215)	(17,322,306)
Other expenses from ordinary activities			
Administration expenditure	2.3(ii)	(5,477,138)	(3,074,049)
Impairment charge		(234,771)	-
Share based payment expenses	7.2	(304,270)	(134,458)
Financial income / (expenses)	5.2	794,178	(30,491)
Profit before income tax		13,973,618	6,557,171
Income tax expense	2.4(i)	(4,040,688)	(2,779,337)
Profit after income tax		9,932,930	3,777,834
Profit is attributable to:			
Owners of Mineral Commodities Ltd		9,932,930	3,777,834
Non-controlling interest		-	-
		9,932,930	3,777,834
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	2.5	2.45	0.93
Diluted earnings per share	2.5	2.45	0.93

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income

For the year ended 31 December 2017

		31 Dec 2017 \$	31 Dec 2016 \$
Profit for the year		9,932,930	3,777,834
Other comprehensive income			
Changes in the fair value of available-for-sale financial assets	5.3	276,901	(50,380)
Exchange differences on translation of foreign operations	5.3	3,486,282	3,496,590
Other comprehensive income for the year, net of tax		3,763,183	3,446,210
Total comprehensive income for the year		13,696,113	7,224,044
Total comprehensive income for the year is attributable to:			
Owners of Mineral Commodities Ltd		13,696,113	7,224,044
Non-controlling interest		-	-
		13,696,113	7,224,044

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

as at 31 December 2017

	Notes	31 Dec 2017 \$	31 Dec 2016 \$
ASSETS			
Current assets			
Cash and cash equivalents	4.1	10,975,817	2,873,135
Trade and other receivables	4.2	4,997,379	2,176,759
Inventories	4.3	9,141,797	7,997,031
Other investments, including derivatives		542,368	12,595
Total Current Assets		25,657,361	13,059,520
Non-current assets			
Trade and other receivables	4.2	1,058,129	5,807,323
Exploration expenditure	3.1	11,200,454	6,460,268
Mine development expenditure	3.2	7,306,979	7,656,202
Property, plant and equipment	3.3	17,027,635	16,103,545
Deferred tax assets	2.4(ii)	-	884,646
Total Non-Current Assets		36,593,197	36,911,984
Total Assets		62,250,558	49,971,504
LIABILITIES			
Current liabilities			
Trade and other payables	4.4	3,691,145	3,445,086
Unearned revenue	4.5	1,793,475	-
Borrowings	5.1	2,072,320	2,452,592
Employee benefits	7.1	362,760	326,347
Current tax liabilities		1,921,341	66,849
Total Current Liabilities		9,841,041	6,290,874
Non-current liabilities			
Provisions	3.5	169,144	152,016
Long term borrowings	5.1	2,133,721	4,937,073
Employee benefits	7.1	73,273	49,198
Deferred tax liabilities	2.4(ii)	4,105,003	2,421,766
Total Non-current Liabilities		6,481,141	7,560,053
Total Liabilities		16,322,182	13,850,927
NET ASSETS		45,928,376	36,120,577

Consolidated balance sheet *(continued)*
as at 31 December 2017

	Notes	31 Dec 2017 \$	31 Dec 2016 \$
Equity			
Contributed equity	5.3	64,420,299	63,437,092
Reserves	5.3	(13,116,794)	(17,189,759)
Accumulated losses	5.3	(5,488,768)	(10,240,395)
Parent entity interest		45,814,737	36,006,938
Non-controlling interest	5.3	113,639	113,639
TOTAL EQUITY		45,928,376	36,120,577

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the year ended 31 December 2017

	Notes	31 Dec 2017 \$	31 Dec 2016 \$
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		66,417,311	26,784,168
Payments to suppliers and employees		(44,076,945)	(22,345,049)
Net cash inflow from operating activities	4.1(ii)	22,340,366	4,439,119
Cash flows from investing activities			
Payments for exploration expenditure		(276,934)	(178,556)
Payments for property, plant and equipment		(2,767,146)	(6,221,297)
Payments for development expenditure		-	(364,851)
Acquisition of exploration assets		(2,499,233)	-
Proceeds from disposal of property, plant and equipment		149,044	-
Advance to third parties		(78,735)	(95,038)
Interest received		46,030	-
Net cash outflow from investing activities		(5,426,974)	(6,859,742)
Cash flows from financing activities			
Dividends paid to shareholders	2.6	(5,181,303)	(2,914,405)
Proceeds from borrowings		1,792,979	5,835,124
Repayment of borrowings		(5,345,633)	(1,430,110)
Interest paid on borrowings		(161,157)	(385,191)
Net cash inflow/ (outflow) from financing activities		(8,895,114)	1,105,418
Net increase in cash and cash equivalents		8,018,278	(1,315,205)
Cash and cash equivalents at beginning of financial year		2,873,135	4,227,444
Effects of exchange rate changes on cash and cash equivalents		84,404	(39,104)
Cash and cash equivalents at end of financial year	4.1	10,975,817	2,873,135

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 31 December 2017

	Contributed equity	Reserves	Accumulated losses	Totals	Non-controlling interest	Total equity
For the year ended 31 December 2017	\$	\$	\$	\$	\$	\$
At 1 January 2017	63,437,092	(17,189,759)	(10,240,395)	36,006,938	113,639	36,120,577
Profit for the year	-	-	9,932,930	9,932,930	-	9,932,930
Other comprehensive income for the year	-	3,763,183	-	3,763,183	-	3,763,183
Total comprehensive income for the year	-	3,763,183	9,932,930	13,696,113	-	13,696,113
Transaction with owners in their capacity as owners						
Issue of ordinary shares	983,207	-	-	983,207	-	983,207
Issue of share based payments	-	309,782	-	309,782	-	309,782
Dividends paid	-	-	(5,181,303)	(5,181,303)	-	(5,181,303)
Balance at the end of the year	64,420,299	(13,116,794)	(5,488,768)	45,814,737	113,639	45,928,376

	Contributed equity	Reserves	Accumulated losses	Totals	Non-controlling interest	Total equity
For the year ended 31 December 2016	\$	\$	\$	\$	\$	\$
At 1 January 2016	63,437,092	(20,508,920)	(11,365,331)	31,562,841	113,639	31,676,480
Profit for the year	-	-	3,777,834	3,777,834	-	3,777,834
Other comprehensive loss for the year	-	3,446,210	-	3,446,210	-	3,446,210
Total comprehensive income for the year	-	3,446,210	3,777,834	7,224,044	-	7,224,044
Transaction with owners in their capacity as owners						
Issue of share based payments	-	134,458	-	134,458	-	134,458
Transfer to retained earnings on expiry of unlisted options	-	(261,507)	261,507	-	-	-
Dividends paid	-	-	(2,914,405)	(2,914,405)	-	(2,914,405)
Balance at the end of the year	63,437,092	(17,189,759)	(10,240,395)	36,006,938	113,639	36,120,577

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

Structure of the Financial Report

For the 2017 financial report, the Group has adopted AASB 2016-2 Disclosure Initiative: amendments to AASB 101 Presentation of Financial Statements. The amendments are designed to facilitate improved reporting.

To reduce complexity and increase relevance to users, the layout and wording of the notes to the consolidated financial statement in this financial report has been changed. The revised notes include information that is considered material and relevant to understanding the results of the Group. The notes are organised into key sections to provide an enhanced understanding of the Group's performance that is aligned to management's view of the business.

Significant and other accounting policies that summarise the measurement bases and that are relevant to the understanding of the financial statements are provided throughout the notes to the financial statements.

1. Basis of Preparation

This section provides information about the overall basis of preparation that is considered to be useful in understanding these financial statements. Accounting policies specific to the various components of the financial statements are located within the relevant section of the report.

1.1 Corporate information

Mineral Commodities Ltd (the "Company") is a company limited by shares, domiciled and incorporated in Australia. Its shares are publicly traded on the Australian Securities Exchange ("ASX"). The nature of the operations and principal activities of the Company and its controlled entities are described in the directors' report and in the segment information in Note 2.1.

The financial report of the Company for the year ended 31 December 2017 was authorised for issue in accordance with a resolution of directors with effect on 28 February 2018.

1.2 Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and the requirements of the *Corporations Act 2001*. Mineral Commodities Ltd is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- available-for-sale financial assets and liabilities
- derivative instruments

(iii) Presentation currency

The consolidated financial statements are presented in United States ("USD") dollars, which is the Company's presentation currency.

(iv) New and amended standards adopted by the Group

The Group applied the following amendments to accounting standards applicable for the first time for the financial year beginning 1 January 2017.

- AASB 2016-2 Disclosure Initiative: Amendments to AASB 107 Statement of Cash Flows
This Standard made amendments to AASB 107 Statement of Cash Flows to require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The accounting policies have been consistently applied by all entities included in the Group and are consistent with those applied in the prior year.

Notes to the consolidated financial statements *(continued)*

1. Basis of Preparation *(continued)*

1.3 Comparative Information

Certain comparatives have been reclassified to conform to current year presentation.

1.4 Principles of consolidation

The consolidated financial statements include the financial statements of the parent entity, Mineral Commodities Ltd, and its controlled entities (together are referred to hereafter as the "Group"). A list of significant controlled entities is presented in Note 6.1.

Control is achieved when the Group is exposed, or has the rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses 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. Specifically, the Group controls an investee if, and only if, the Group has all of the following:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

Non-controlling interests in the results and equity of the entities that are not controlled by the Group is shown separately in the Income Statement, Statement of Comprehensive Income, Balance Sheet and Statement of Changes in Equity respectively.

1.5 Foreign currency

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in United States dollars, which is the Company's presentation currency.

- Assets and liabilities for each balance sheet presented have been translated at the closing rate at the date of balance sheet;
- Results for the cash flow statement were translated at average daily exchange rates from 1 January 2017 to 31 December 2017; and
- exchange differences on translating income, expenses and movements in equity and reserves at annual average exchange rates and assets and liabilities at closing exchange rates from functional currency to presentation currency are taken to the foreign currency translation reserve in the equity section and under other comprehensive income/(expense) in the statement of comprehensive income.

(ii) Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

Notes to the consolidated financial statements *(continued)*

1. Basis of Preparation *(continued)*

1.5 Foreign currency *(continued)*

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

1.6 Goods and Services Tax (GST) and Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of GST and VAT except where the GST and VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST and VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and where receivables and payables are stated with the amount of GST and VAT included. The net amount of GST and VAT recoverable from, or payable to, the taxation authority is included as part of receivables in the consolidated balance sheet. Cash flows are included in the statements of cash flows on a gross basis and the GST and VAT component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST and VAT recoverable from, or payable to, the relevant taxation authority.

1.7 Critical accounting estimates and judgements

The Group makes significant estimates and judgements concerning the future. The resulting accounting estimates may not equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are found in the following notes:

Note 2.2: Revenue recognition

Note 2.4: Recognition of deferred taxes

Note 3.1: Exploration and evaluation expenditure

Note 3.2: Development expenditure

Note 3.3: Property, plant and equipment

Note 3.5: Rehabilitation provisions

Notes to the consolidated financial statements *(continued)*

2. Financial Performance

This section highlights key financial performance of the Group for the reporting period including, where applicable, the accounting policies applied and the key estimates and judgements made.

2.1 Segment information

(i) Description of segments

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the board of directors that makes strategic decisions.

There is no goodwill attaching to any of the segments. There has been no impact on the measurement of the assets and liabilities reported for each segment.

The chief operating decision maker has identified five reportable segments to its business, being:

1. Mineral Sands mining and production (Tormin Mineral Sands project) – South Africa;
2. Mineral Sands exploration (Xolobeni Mineral Sands project) – South Africa;
3. Exploration activities - Australia;
4. Exploration activities - Iran; and
5. Corporate (management and administration of the Company's projects and marketing and sales of finished products) – Australia, South Africa and Iran.

Notes to the consolidated financial statements (continued)

2. Financial Performance (continued)

2.1 Segment information (continued)

(ii) Segment results, segment assets and segment liabilities

The segment information provided to the chief operating decision maker for the reportable segments for the year ended 31 December 2017 is as follows:

2017	Tormin project	Xolobeni project	Australia exploration	Iran exploration	Corporate	Consolidation eliminations	Total
	\$	\$	\$	\$	\$	\$	\$
Total segment revenue	62,999,406	-	-	-	62,530,280	-	125,529,686
Inter-segment revenue	(62,921,852)	-	-	-	-	-	(62,921,852)
Revenue from external customers	77,554	-	-	-	62,530,280	-	62,607,834
Adjusted EBITDA	7,363,755	364	(1,474)	-	11,716,949	67,557	19,147,151
Depreciation and amortisation	4,369,223	-	-	-	91,179	-	4,460,402
Impairment	-	-	-	-	234,771	-	234,771
Total segment assets	23,154,827	6,052,554	3,994,228	427,572	115,583,829	(86,962,452)	62,250,558
Total segment liabilities	11,738,223	5,935,185	3,824,467	-	79,871,318	(85,047,011)	16,322,182

2016	Tormin project	Xolobeni project	Australia exploration	Iran exploration	Corporate	Consolidation eliminations	Total
	\$	\$	\$	\$	\$	\$	\$
Total segment revenue	27,008,143	-	-	-	26,872,498	-	53,880,641
Inter-segment revenue	(26,762,166)	-	-	-	-	-	(26,762,166)
Revenue from external customers	245,977	-	-	-	26,872,498	-	27,118,475
Adjusted EBITDA	4,214,093	5,429	-	-	10,147,054	(3,445,604)	10,920,972
Depreciation and amortisation	3,903,014	-	-	-	64,746	-	3,967,760
Total segment assets	20,323,926	5,166,354	-	-	70,319,813	(45,838,589)	49,971,504
Total segment liabilities	11,655,529	5,061,222	-	-	41,214,209	(44,080,033)	13,850,927

Notes to the consolidated financial statements (continued)

2. Financial Performance (continued)

2.1 Segment information (continued)

(iii) Reconciliation of EBIT (segment result) to profit before tax

Adjusted EBITDA reconciles to operating profit before income tax as follows:

	31 Dec 2017 \$	31 Dec 2016 \$
Adjusted EBITDA	19,147,151	10,920,972
Interest expense	(478,360)	(396,041)
Depreciation and amortisation	(4,460,402)	(3,967,760)
Impairment	(234,771)	-
Operating profit before income tax	<u>13,973,618</u>	<u>6,557,171</u>

2.2 Revenue

Accounting Policies

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when there is persuasive evidence indicating that there has been a transfer of risks and rewards to the customer, generally for the Group, this is based on free-on-board sales where transfer of risks and rewards passes at port of origin. Sales revenue comprises gross revenue earned from the provision of product to customers. Sales are initially recognised at estimated sales value when the product is delivered. Adjustments are made for variations in metals price, assay, weight and moisture content between the time of delivery and the time of final settlement of sales proceeds.

Revenue from the stockpiling of goods is recognised when there is evidence that there has been a transfer of risks and rewards to the customer. This is based on a contractual obligation of the customer to take final delivery and make full and final payment for all amounts delivered to the stockpile, which is clearly identified and available to the buyer.

	31 Dec 2017 \$	31 Dec 2016 \$
From continuing operations		
Sales revenue		
Sale of product	<u>60,930,269</u>	<u>26,872,575</u>
Other revenue		
Stockpile area stockpiling cost	1,600,011	-
Other income	77,554	245,900
	<u>1,677,565</u>	<u>245,900</u>

Notes to the consolidated financial statements (continued)

2. Financial Performance (continued)

2.3 Expenses

	31 Dec 2017	31 Dec 2016
	\$	\$

This note provides an analysis of expenses by nature.

(i) Mining and processing costs

Mining and processing costs include the following material expenditure items:

Transport of product	18,249,474	2,462,420
Fuel	4,906,181	3,734,952
Wages and salaries	5,054,237	4,974,410
Repairs and maintenance	3,452,234	2,244,966
Depreciation and amortisation – mining and processing assets	4,369,223	3,913,249

(ii) Administration expenses

Administration expenses include the following material expenditure items:

Directors and key management personnel remuneration	1,567,086	1,263,206
Operating lease rentals	1,982,418	1,012,643
Depreciation – corporate assets	91,179	64,706

2.4 Taxation

(i) Income tax expense

Accounting Policies

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Mineral Commodities Ltd is the head entity in the tax-consolidated group. The head entity and the controlled entities in the tax-consolidated group continue to account for their own current and deferred tax amounts. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Notes to the consolidated financial statements (continued)

2. Financial Performance (continued)

2.4 Taxation (continued)

(i) Income tax expense (continued)

The Company and the other entities in the tax-consolidated group have entered into a tax funding agreement and a tax sharing agreement.

The following provides an analysis of the group's income tax expense, shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

	31 Dec 2017 \$	31 Dec 2016 \$
The components of income tax expense comprise:		
Current tax	1,768,748	301,814
Deferred tax	2,524,411	2,793,034
Adjustments for current tax of prior periods	(252,471)	(315,511)
	4,040,688	2,779,337
 Income tax expense is attributable to:		
Profit from continuing operations	4,040,688	2,779,337
Aggregate income tax benefit	4,040,688	2,779,337
 Deferred income tax benefit included in income tax expense comprises:		
Decrease in deferred tax assets	(808,499)	(2,670,196)
Increase in deferred tax liabilities	1,759,384	719,422
	950,885	(1,950,774)

Numerical reconciliation of income tax expense to prima facia tax expense

	31 Dec 2017 \$	31 Dec 2016 \$
Profit from continuing operations before income tax expense	13,973,618	6,557,171
 Prima facia tax payable on profit from ordinary activities before at a rate of 30% (2016: 30%)	4,192,085	1,967,151
Foreign tax rate differential	(180,417)	(175,337)
Tax at consolidated amount	4,011,668	1,791,814
 Tax effect of:		
Entertainment	3,546	3,559
Legal fees	-	40,877
Donations	9,122	3,595
Amortisation of exploration and evaluation asset	91,311	74,475
Gain on disposal of assets	(7,000)	-
Share based payment	91,281	40,337
Other non-assessable items	93,231	1,086,755
Utilisation of income tax losses	-	53,436
Adjustment for current tax of prior period	(252,471)	(315,511)
Income tax expense	4,040,688	2,779,337

Notes to the consolidated financial statements (continued)

2. Financial Performance (continued)

2.4 Taxation (continued)

(i) Income tax expense (continued)

	31 Dec 2017	31 Dec 2016
	\$	\$
<i>Amounts recognised directly in equity</i>		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Current tax – credited directly to equity	-	-
Net deferred tax – debited (credited) to equity	-	-
	<u>-</u>	<u>-</u>

(ii) Deferred tax assets and liabilities

Accounting Policies

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Significant Judgement – Deferred taxes recognised

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. As a result of this review, at balance date, it was determined that losses of \$Nil (2016: \$1,183,970) at 30% have been brought to account as it is now probable that they will be recovered.

(a) Deferred tax assets

	31 Dec 2017	31 Dec 2016
	\$	\$
<i>Recognised deferred tax assets</i>		
Tax losses	7,274	756,059
Trade and other receivables	6,450	97,607
Provisions/accrued expenditure	175,029	151,479
Business related expenditure and borrowing costs	39,690	31,797
	<u>228,443</u>	<u>1,036,942</u>
Set-off against deferred tax liabilities	(228,443)	(152,296)
	<u>-</u>	<u>884,646</u>

Notes to the consolidated financial statements (continued)

2. Financial Performance (continued)

2.4 Taxation (continued)

(ii) Deferred tax assets and liabilities (continued)

(a) Deferred tax assets (continued)

Movements	Tax losses \$	Trade and other receivables \$	Provisions/ accrued expenditure \$	Business related expenditure and borrowing costs \$	Unrealised foreign exchange losses \$	Total \$
At 1 January 2017 (charged) / credited	756,059	97,607	151,479	31,797	-	1,036,942
- to profit or loss	(748,785)	(91,157)	23,550	7,893	-	(808,499)
- to other comprehensive income	-	-	-	-	-	-
At 31 December 2017	7,274	6,450	175,029	39,690	-	228,443

Movements	Tax losses \$	Trade and other receivables \$	Provisions/ accrued expenditure \$	Business related expenditure and borrowing costs \$	Unrealised foreign exchange losses \$	Total \$
At 1 January 2016 (charged) / credited	1,842,733	-	142,773	75,412	1,646,220	3,707,138
- to profit or loss	(1,086,674)	97,607	8,706	(43,615)	(1,646,220)	(2,670,196)
- to other comprehensive income	-	-	-	-	-	-
At 31 December 2016	756,059	97,607	151,479	31,797	-	1,036,942

(b) Deferred tax liabilities

	31 Dec 2017 \$	31 Dec 2016 \$
Unrealised foreign exchange gain	692,237	190,408
Property, plant and equipment	3,610,792	2,362,399
Prepayments	30,417	21,255
	4,333,446	2,574,062
Set-off against deferred tax assets	(228,443)	(152,296)
	4,105,003	2,421,766

Notes to the consolidated financial statements (continued)

2. Financial Performance (continued)

2.4 Taxation (continued)

(ii) Deferred tax assets and liabilities (continued)

(c) Deferred tax liabilities (continued)

Movements	Unrealised foreign exchange gain	Property, plant and equipment	Prepayments	Interest receivable	Total
	\$	\$	\$	\$	\$
At 1 January 2017 (charged) / credited	190,408	2,362,399	21,255	-	2,574,062
- to profit or loss	501,829	1,248,393	9,162	-	1,759,384
- to other comprehensive income	-	-	-	-	-
At 31 December 2017	692,237	3,610,792	30,417	-	4,333,446

Movements	Unrealised foreign exchange gain	Property, plant and equipment	Prepayments	Interest receivable	Total
	\$	\$	\$	\$	\$
At 1 January 2016 (charged) / credited	1,761,557	443,295	2,462	187,306	2,394,620
- to profit or loss	(1,571,149)	1,919,104	18,793	(187,306)	179,442
- to other comprehensive income	-	-	-	-	-
At 31 December 2016	190,408	2,362,399	21,255	-	2,574,062

2.5 Earnings per share

(i) Basic earnings per share

Accounting Policies

Basic earnings per share is determined by dividing the profit after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	2017 US Cents	2016 US Cents
From continuing operations attributable to the ordinary equity holders of the Company	2.45	0.93
Total basic earnings per share attributable to the ordinary equity holders of the Company	2.45	0.93

Notes to the consolidated financial statements (continued)

2.5 Earnings per share (continued)

(ii) Diluted earnings per share

Accounting Policies

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share would arise from the exercise of options outstanding at the end of the financial year.

	2017 \$	2016 \$
From continuing operations attributable to the ordinary equity holders of the Company	2.45	0.93
Total diluted earnings per share attributable to the ordinary equity holders of the Company	2.45	0.93
 (a) Reconciliation of earnings used in the calculation of earnings per share		
<i>Basic earnings per share</i>		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share:		
From continuing operations	9,932,930	3,777,834
 <i>Diluted earnings/(loss) per share</i>		
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share:		
From continuing operations	9,932,930	3,777,834
	2017 Number	2016 Number
 (b) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	406,037,470	404,941,581
Adjustment for calculation of diluted earnings per share:		
Options	-	-
Performance rights	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	406,037,470	404,941,581

The table below details the number of options and performance rights that have been granted and are on issue as at 31 December 2017. As the options are out of the money and the performance rights' vesting conditions have not been met as at 31 December 2017, these potential ordinary shares have not been included in the determination of dilutive earnings per share.

Number	Type of Security	Exercise price	Expiry date
5,000,000	Options	AUD \$0.20	30 May 2018
1,000,000	Options	AUD \$0.20	31 March 2018
4,000,000	Performance Rights	AUD \$0.20	30 May 2019
2,500,000	Performance Rights	AUD \$0.20	31 May 2020
450,000	Performance Rights	AUD \$0.20	31 May 2021

Notes to the consolidated financial statements (continued)

2.6 Dividends

Accounting policies

Dividends are recognised as a liability at the time the Directors resolve to pay or declare the dividend.

	Dividend per share cents	2017 \$
Dividends recognised during the year		
2017		
Final 2016 ordinary	0.89	3,605,697
Interim 2017 ordinary	0.37	1,575,606
		<u>5,181,303</u>
2016		
Final 2015 ordinary	0.72	<u>2,914,405</u>

3. Capital Expenditure, Operating Assets and Rehabilitation Obligations

This section includes information about the assets used by the Group to generate profits and revenue, specifically information relating to its exploration and evaluation assets, mine development expenditures, property, plant and equipment, associated rehabilitation obligations, and commitments for capital expenditure not yet recognised as a liability.

3.1 Exploration and evaluation assets

Accounting Policies

Exploration and evaluation expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest. Such expenditure comprises direct costs and does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

Exploration expenditure for each area of interest is carried forward as an asset provided the rights to tenure of the area of interest are current and one of the following conditions is met:

- The exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
- Exploration and evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interests is continuing.

Exploration expenditure is written off when it fails to meet at least one of the conditions outlined above or an area of interest is abandoned.

When a decision is made to develop an area of interest, all carried forward exploration expenditure in relation to the area of interest is transferred to development expenditure.

No amortisation is charged during the exploration and evaluation phase.

Please refer to note 3.4 for the Group's accounting policy on impairment of exploration and evaluation assets.

Notes to the consolidated financial statements (continued)

3. Capital Expenditure, Operating Assets and Rehabilitation Obligations (continued)

3.1 Exploration and evaluation assets (continued)

Significant judgement

The carrying value of exploration assets is reviewed on an area of interest basis. Exploration in Australia and Iran is in its infancy stages and are being carried forward on the basis that these areas have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interests is continuing.

Recoupment of the capitalised exploration and evaluation expenditure of the Xolobeni Mineral Sands area of interest in South Africa is dependent on either the successful development and commercial exploitation or the settlement of the proposed transaction, as announced to the Australian Securities Exchange ("ASX") in July 2016, to divest of the Company's interest in Transworld Energy and Resources (SA) Pty Ltd ("TEM"), which owns the Xolobeni Mineral Sands Project. The Xolobeni exploration asset is being carried forward on that basis.

The proposed transaction has not resulted in Xolobeni being classified as held for sale in accordance with AASB 5 as at 31 December 2017, as it is not highly probable that the transaction will complete due to required regulatory approvals, stage of negotiation of the consideration and involvement of a third party who holds shares in TEM.

	Note	31 Dec 2017 \$	31 Dec 2016 \$
As at 1 January		6,460,268	5,323,062
Acquisition of exploration asset		3,495,811	-
Expenditure during the year		249,939	229,333
Re-classification: transfer from / (to) property, plant and equipment	3.3	204,501	303,752
Exchange differences		789,935	604,121
As at 31 December		11,200,454	6,460,268

On 11 September 2017 MRC executed a binding term sheet with Gold Terrace Pty Ltd to earn up to 100% of the high grade Munglinup Graphite Project, with an initial majority position of 51% for a total upfront consideration of A\$3.2 million (circa US\$2.5 million in cash and 10 million ordinary shares in MRC as at share price of AUD 13 cents per share, which was the fair value of the equity instruments granted as consideration). The Munglinup Graphite Project Farm-in and Joint Venture Agreement were formally finalised and executed on 20 November 2017.

3.2 Development expenditure

Accounting Policies

Development expenditure

Development expenditure represents the accumulated exploration, evaluation, land and development expenditure incurred by or on behalf of the Group in relation to areas of interest in which mining of a mineral resource has commenced.

When further development expenditure is incurred in respect of a mine property after commencement of production, such expenditure is carried forward as part of the development expenditure only when substantial future economic benefits are thereby established, otherwise such expenditure is classified as part of the cost of production.

The estimated recoverable reserves and life of the mine and the remaining useful life of each class of asset are reassessed at least annually. Where there is a change in the reserves/resources amortisation rates are correspondingly adjusted. Please refer to the table in note 3.3 for basis of amortisation rates used.

Please refer to note 3.4 for the Group's accounting policy on impairment of development expenditure.

Notes to the consolidated financial statements (continued)

3. Capital Expenditure, Operating Assets and Rehabilitation Obligations (continued)

3.2 Development expenditure (continued)

Significant judgement

Reserves and Resources

In order to calculate ore reserves and mineral resources, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. The Group estimates its ore reserves and mineral resources based on information compiled by Competent Persons (as defined in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves as revised in 2012 (the JORC code).

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

- Asset carrying values may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charges in profit or loss may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change; and
- Restoration and rehabilitation provision may be affected due to changes in the magnitude of future restoration and rehabilitation expenditure.

	31 Dec 2017 \$	31 Dec 2016 \$
As at 1 January	7,656,202	7,589,359
Expenditure during the year	-	364,263
Amortisation expense	(1,127,091)	(1,213,899)
Exchange differences	777,868	916,479
	7,306,979	7,656,202

Carrying value assessment

In light of recent commentary around the Group's issues obtaining the extended mining rights application (further details are provided below) for its Tormin assets the carrying value of the Group's Tormin capital assets (note 3.2 and note 3.3) has been assessed against recoverable amount for the financial year ended 31 December 2017. The Tormin assets net value in use was assessed higher than current carrying value, therefore no adjustments were proposed.

The Group, via its 50% owned South African subsidiary Mineral Sands Resources (Pty) Ltd ("MSR") had previously submitted a Section 102 Extended Mining Rights Amendment Application ("Section 102 Application") to the Department of Mineral Resources ("DMR") Western Cape Region on 26 April 2017. This Section 102 Application sought to extend the existing Tormin Mining Right to include the beaches to the north of its existing beach mining rights and an identified mineral sands inland strandline located on the Company owned Geelwal Karoo freehold farm (on which the Tormin processing plant is also located).

On 13 December 2017, the Group was advised that MSR has received notification from the DMR that the National Environmental Management Act ("NEMA") Authorisation which forms part of the Section 102 Application for the Tormin Minerals Sands Mine has been refused. Notwithstanding, the reasons for the refusal by the DMR were not transparently clear.

The Group has decided not to appeal the decision and has after consultation with the DMR decided to submit a Section 24G Application which deals with non-authorised activities under its NEMA and approved Environmental Management Program ("EMPr"). In addition this will allow for the resubmission of the NEMA Environmental Authorisation associated with its Section 102 Application, which the Group will now be submitting in the first quarter of 2018.

The current Tormin mining rights extend to 26 November 2018. If the Section 102 Application resubmission is not positively processed by August 2018, the Company must also submit an application for renewal of the existing mining rights over the current area (i.e. without extending the mining area). The renewal application must be filed with the DMR no less than 60 working days before 26 November 2018. Note: mining rights, in respect of which an application for renewal has been lodged, will remain in force until such time as the application has been granted or refused by the DMR.

Notes to the consolidated financial statements (continued)

3. Capital Expenditure, Operating Assets and Rehabilitation Obligations (continued)

3.2 Development expenditure (continued)

Significant judgement (continued)

Carrying value assessment (continued)

The Group is confident that the assessment of the mining rights will be positively progressed in the 2018 financial year.

The Group has also sought clarity on the status of its current prospecting right applications and is also confident that the assessment of the prospecting rights will be positively progressed in the first quarter of 2018.

3.3 Property, plant and equipment

Accounting Policies

Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Items of plant and equipment are initially recorded at cost and include any expenditure that is directly attributable to acquisition of the items. Subsequent costs are included in the assets carrying amount or recognised as a separate asset as appropriate. All other repairs and maintenance are charged to the profit for the year in which they are incurred.

De-commissioning assets relates to capitalised restoration costs expected to be incurred.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An assets carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

Depreciation of property, plant and equipment

Depreciation and amortisation is provided to expense the cost of property, plant and equipment, and de-commissioning assets and development, over its estimated useful life on a straight line or units of usage (activity) basis.

The basis of depreciation and amortisation of each asset is reviewed annually and changes to the basis of depreciation and amortisation are made if the straight line or units of production basis is no longer considered to represent the expected pattern of consumption of economic benefits.

The reserves and life of each mine and the remaining useful life of each class of asset are reassessed at regular intervals and the depreciation and amortisation rates adjusted accordingly on a prospective basis. The estimated useful lives for the main categories of assets are as follows:

Fixed Asset Category	Estimated Useful Life
Mine properties and development	The shorter of applicable mine life or generally 10 years
Land	Not depreciated
Mine buildings	The shorter of applicable mine life or generally 10 years
Excavators and loaders working in significant salt exposed conditions	Generally 12,000 hours operation
All other heavy earth moving vehicles	Generally 18,000 hours operation
Light and other mobile vehicles	Generally 5 years
Mine specific machinery, plant and equipment	The shorter of applicable mine life or generally 10 years
Other machinery, plant and equipment	Generally 10 years
Computer hardware	Generally 4 years
Software acquisitions and development	Generally 3 years
Office leasehold fit-outs	Generally lease term, including extensions
Other office furniture and fittings	Generally 10 years

Notes to the consolidated financial statements *(continued)*

3. Capital Expenditure, Operating Assets and Rehabilitation Obligations *(continued)*

3.3 Property, plant and equipment *(continued)*

Depreciation of property, plant and equipment (continued)

Note: For assets under a finance lease, if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term or its useful life.

Note: "Generally" implies that if a specific asset or class of assets useful life is reasonably able to be determined as less than that stipulated above, then the applicable lower estimated useful life is to be used.

Disposal of assets

The gain or loss on disposal of assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal and is included in profit for the year of disposal.

Significant judgement

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life mine development assets which requires significant estimation and judgement. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

The estimated recoverable reserves and life of the mine and the remaining useful life of each class of asset is reassessed at least annually based upon latest resource information and replenishment rates. In circumstances where conversion of resources into reserves is expected, applicable resources are included in life of mine assessments and reassessments. In circumstances where there is reasonable evidence of natural replenishment of resources, the applicable natural replenishment resource estimates is included in the life of mine assessments and reassessments.

Where the lives of the assets are shorter than the mine life, their costs are amortised based on the useful life of the assets. Where there is a change in the estimated life of mine, amortisation rates are correspondingly adjusted which may change the depreciation and amortisation charges in the statement of profit or loss and other comprehensive income.

The Group has sought clarity on the status of its current mining right applications (refer note 3.2 – Carrying value assessment for further details) and is confident that the assessment of the mining rights will be positively progressed in the 2018 financial year. On that basis there has been no change to the estimation of useful lives of assets since 31 December 2016.

Notes to the consolidated financial statements (continued)

3. Capital Expenditure, Operating Assets and Rehabilitation Obligations (continued)

3.3 Property, plant and equipment (continued)

	Freehold land and buildings	Furniture, fittings and equipment	Plant and machinery	Mine vehicles	Decom- missioning asset	Capex work in progress	Total
	\$	\$	\$	\$	\$	\$	\$
Year ended 31 December 2017							
Cost at fair value							
As at 1 January 2017	532,707	572,318	21,886,412	125,523	152,016	631,242	23,900,218
Additions	-	68,773	2,193,080	5,622	-	2,868,457	5,135,932
Disposals	-	-	(513,020)	-	-	-	(513,020)
Re-classifications	-	11,712	2,193,080	-	-	(2,409,293)	(204,501)
Exchange differences	60,024	44,592	399,443	14,568	17,129	11,469	547,225
As at 31 December 2017	592,731	697,395	26,158,995	145,713	169,145	1,101,875	28,865,854
Accumulated depreciation and amortisation							
As at 1 January 2017	(9,174)	(360,149)	(7,339,628)	(42,117)	(45,605)	-	(7,796,673)
Depreciation and amortisation	(15,403)	(128,160)	(3,150,659)	(23,358)	(15,731)	-	(3,333,311)
Disposals	-	-	381,615	-	-	-	381,615
Exchange differences	(2,194)	(39,455)	(1,035,375)	(6,504)	(6,322)	-	(1,089,850)
As at 31 December 2017	(26,771)	(527,764)	(11,144,047)	(71,979)	(67,658)	-	(11,838,219)
Net book amount							
Cost at fair value	592,731	697,395	26,158,995	145,713	169,145	1,101,875	28,865,854
Accumulated depreciation and amortisation	(26,771)	(527,764)	(11,144,047)	(71,979)	(67,658)	-	(11,838,219)
Net book amount	565,960	169,631	15,014,948	73,734	101,487	1,101,875	17,027,635
	Freehold land and buildings	Furniture, fittings and equipment	Plant and machinery	Mine vehicles	Decom- missioning asset	Capex work in progress	Total
	\$	\$	\$	\$	\$	\$	\$
Year ended 31 December 2016							
Cost at fair value							
As at 1 January 2016	16,513	428,137	13,499,398	66,466	52,784	1,564,585	15,627,883
Additions	-	-	-	-	86,845	6,170,301	6,257,146
Re-classifications	482,784	127,659	6,253,505	47,471	-	(7,214,991)	(303,572)
Exchange differences	33,410	16,522	2,133,509	11,586	12,387	111,347	2,318,761
As at 31 December 2016	532,707	572,318	21,886,412	125,523	152,016	631,242	23,900,218
Accumulated depreciation and amortisation							
As at 1 January 2016	(555)	(239,530)	(4,053,546)	(21,287)	(10,557)	-	(4,325,475)
Depreciation and amortisation	(8,028)	(108,673)	(2,598,707)	(17,003)	(31,645)	-	(2,764,056)
Exchange differences	(591)	(11,946)	(687,375)	(3,827)	(3,403)	-	(707,142)
As at 31 December 2016	(9,174)	(360,149)	(7,339,628)	(42,117)	(45,605)	-	(7,796,673)
Net book amount							
Cost at fair value	532,707	572,318	21,886,412	125,523	152,016	631,242	23,900,218
Accumulated depreciation and amortisation	(9,174)	(360,149)	(7,339,628)	(42,117)	(45,605)	-	(7,796,673)
Net book amount	523,533	212,169	14,546,784	83,406	106,411	631,242	16,103,545

Notes to the consolidated financial statements *(continued)*

3. Capital Expenditure, Operating Assets and Rehabilitation Obligations *(continued)*

3.4 Impairment of non-current assets

Accounting Policies

The carrying amounts of the Group's exploration and evaluation assets, development expenditure and property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made.

Indicators of impairment – exploration and evaluation assets

The carrying amounts of the Group's exploration and evaluation assets are reviewed at each reporting date, to determine whether any of the following indicators of impairment exists:

- (i) Tenure over the licence area has expired during the period or will expire in the near future, and is not expected to be renewed; or
- (ii) Substantive expenditure on further exploration for, and evaluation of, mineral resources in the specific area is not budgeted or planned; or
- (iii) Exploration for, and evaluation of, resources in the specific area have not led to the discovery of commercially viable quantities of resources, and the Group has decided to discontinue activities in the specific area; or
- (iv) Sufficient data exists to indicate that although a development is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or from sale.

Impairment testing – other assets

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or Groups of assets (cash-generating units).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Refer note 3.2 – Carrying value assessment for further details of the assessment of Tormin assets.

3.5 Rehabilitation provisions

Accounting Policies

Provisions for environmental rehabilitation are recognised when the Group has a present legal or constructive obligation as a result of exploration, development and/or production activities undertaken and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

The estimated future obligations include the costs of removing facilities and restoring the affected areas and is the best estimate of the present value of the future expenditure required to settle the environmental rehabilitation at reporting date, based on current legal requirements. Any changes in the estimate are reflected in the present value of the environmental rehabilitation provision at the reporting date, with a corresponding change in the cost of the associated asset.

Significant judgement

A provision has been made for the present value of anticipated costs for future rehabilitation of land explored or mined. The Group's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The Group recognises management's best estimate for assets retirement obligations and site rehabilitations in the period in which they are incurred. Actual costs incurred in the future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Notes to the consolidated financial statements (continued)

3. Capital Expenditure, Operating Assets and Rehabilitation Obligations (continued)

3.5 Rehabilitation provisions (continued)

	31 Dec 2017 \$	31 Dec 2016 \$
Non-current		
Environmental rehabilitation provision	169,144	152,016

3.6 Commitments for expenditure

The Group has the following commitments for expenditure for which no liabilities have been recorded in the financial statements as the goods or services have not been received, including non-cancellable operating lease rentals:

a) Capital commitments

Committed at the reporting date but not recognised as liabilities, payable:

Property, plant and equipment	365,108	21,904
-------------------------------	----------------	--------

b) Operating lease commitments

Accounting Policies

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

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

Non-cancellable operating leases contracted for but not capitalised in the accounts:

	31 Dec 2017 \$	31 Dec 2016 \$
Within one year	1,548,449	947,782
Later than one year but no later than five years	513,523	1,815,084
Greater than 5 years	-	-
	2,061,972	2,762,866

Operating lease commitments includes contracted amounts for offices and plant and equipment under non-cancellable operating leases expiring within one to five years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

4. Working Capital Management

This section provides information about the Group's working capital balances and management, including cash flow information.

Notes to the consolidated financial statements (continued)

4. Working Capital Management (continued)

4.1 Cash and cash equivalents

Accounting Policies

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

The carrying amounts of cash and cash equivalents represent fair value. Bank balances and deposits held at call earn interest at floating rates based upon market rates.

Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

	31 Dec 2017 \$	31 Dec 2016 \$
Cash assets		
Cash at bank and in hand	10,975,817	2,873,135

(i) Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 5.4(a)(ii).

(ii) Reconciliation of profit after income tax to cash flow from operating activities

	31 Dec 2017 \$	31 Dec 2016 \$
Profit for the year	9,932,930	3,777,834
Adjustments for:		
Depreciation and amortisation	4,460,402	3,967,760
Assets written off	-	(216,267)
Loss on disposal of asset	1,415	-
Impairment loss/ (gain)	234,771	(150,898)
Net finance costs	(188,730)	370,513
Share based payments	304,270	134,458
Net exchange differences	(774,824)	(2,022,430)
Tax expense	4,040,688	2,779,337
Change in operating assets and liabilities:		
Decrease in trade debtors	2,535,152	1,376,509
Increase in inventories	(227,346)	(5,075,478)
Increase/ (decrease) in trade payables and unearned revenue	1,613,449	(355,982)
Increase in provisions	408,189	(146,237)
	22,340,366	4,439,119

(iii) Non-cash investing and financing activities

	Note	31 Dec 2017 \$	31 Dec 2016 \$
Acquisition of plant and equipment by means of finance leases	5.1	93,627	1,024,690
Acquisition of exploration assets by means of ordinary shares Issued	5.3	983,207	-
		1,076,834	1,024,690

Notes to the consolidated financial statements (continued)

4. Working Capital Management (continued)

4.1 Cash and cash equivalents (continued)

(iv) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	31 Dec 2017 \$	31 Dec 2016 \$
Cash and cash equivalents	10,975,817	2,873,135
Borrowings – repayable within one year (including overdraft)	(2,072,320)	(2,452,592)
Borrowings – repayable after one year	(2,133,721)	(4,937,073)
Net debt	6,769,776	(4,516,530)
Cash and cash equivalents	10,975,817	2,873,135
Gross debt – variable interest rates	(4,206,041)	(7,389,665)
Net debt	6,769,776	(4,516,530)

	Other assets	Liabilities from financing activities		Total
	Cash and cash equivalents	Borrowings due within 1 year	Borrowings due after 1 year	
	\$	\$	\$	\$
Net debt as at 1 January 2017	2,873,135	(2,452,595)	(4,937,070)	(4,516,530)
Cash flows	8,018,278	2,214,997	875,000	11,108,275
Acquisitions – finance leases	-	93,627	-	93,627
Foreign exchange adjustments	84,404	-	-	84,404
Other non-cash movements	-	(1,928,349)	1,928,349	-
Net debt as at 31 December 2017	10,975,817	(2,072,320)	(2,133,721)	6,769,776

4.2 Trade and other receivables

Accounting Policies

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Loans and receivables are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method. They are included within current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets.

Notes to the consolidated financial statements (continued)

4. Working Capital Management (continued)

4.2 Trade and other receivables (continued)

	31 Dec 2017 \$	31 Dec 2016 \$
Current		
Trade receivables	3,509,234	1,079,530
Less: Provision for impairment of receivables	(21,500)	(21,500)
	3,487,734	1,058,030
Other receivables (i)	1,407,103	1,031,062
Prepayments	102,542	87,667
	4,997,379	2,176,759
Non-current		
Trade receivables (ii)	-	4,896,142
Security deposits (iii)	235,003	211,205
Advance to Blue Bantry (iv)	666,245	598,777
Other receivables	156,881	101,199
	1,058,129	5,807,323

- (i) Includes \$844,089 (2016: \$497,664) of VAT refundable from the South African Revenue Service.
- (ii) The amount related to bill and hold sales arising from an offtake agreement with a customer which was recorded at amortised cost. During the year, \$2,550,560 was received from the customer and the remainder balance of \$2,649,440 is expected to be settled in 12 months, thus, reclassify to current trade receivables.
- (iii) Includes a secured deposit of \$235,003 (2016: \$211,205) with First Rand bank held as security for a performance guarantee issued by the Bank in favour of the South African Department of Minerals and Energy in respect of Mineral Sands Resources (Pty) Ltd obligations under the Tormin Mining right.
- (iv) An amount of ZAR 8.25 million (2016: ZAR 8.25 million) has been advanced to the BEE partner, Blue Bantry. Refer to note 8.2 for details.

Impairment of receivables

No impairment of receivables has been recognised by the Group for the year ended 31 December 2017.

Fair values and credit risk

Except for the non-current trade receivables, due to the short term nature of these receivables the carrying values represent their respective fair values as at 31 December 2017 and 2016. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The non-current trade receivables have a fair value of \$NIL as at 31 December 2017, compared to a carrying amount of \$NIL (2016: fair value of \$4,896,142 and carrying amount of \$5,200,000).

The fair values were calculated based on cash flows discounted using a current lending rate. Refer to note 5.4 for more information on the risk management policy of the Group and the credit quality of the entity's receivables.

Foreign exchange and interest rate risk

Information about the Group's exposure to foreign exchange and interest rate risk in relation to trade and other receivables is provided in note 5.4.

Notes to the consolidated financial statements (continued)

4. Working Capital Management (continued)

4.3 Inventories

Accounting Policies

Raw materials and stores, ore stockpiles and work in progress and finished stocks are physically measured or estimated and valued at the lower of cost and net realisable value. Net realisable value less costs to sell is assessed annually based on the amount estimated to be obtained from sale of the item of inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale.

Weighted average cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure and depreciation and amortisation relating to mining activities, the latter being allocated on the basis of normal operating capacity. As a result of mineral sands being co-products from the same mineral separation process, costs are allocated to the various finished products on the basis of the relative sales value of the finished goods produced. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories of consumable supplies and spare parts expected to be used in production are valued at the lower of weighted average cost, which includes the cost of purchase as well as transportation and statutory charges, or net realisable value. Any provision for obsolescence is determined by reference to specific stock items identified.

	31 Dec 2017 \$	31 Dec 2016 \$
Raw materials at cost	2,622,965	69,464
Finished product at cost	3,635,040	5,888,188
Spare parts and consumables at cost	2,883,792	2,039,379
	<u>9,141,797</u>	<u>7,997,031</u>

The costs of individual items of inventory are determined using weighted average cost.

4.4 Trade and other payables

Accounting Policies

Trade and other payables are recognised originally at fair value and subsequently measured at amortised cost using the effective interest rate method. Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of each reporting period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

	31 Dec 2017 \$	31 Dec 2016 \$
Trade payables	2,793,981	2,596,770
Other payables and accruals	897,164	848,316
	<u>3,691,145</u>	<u>3,445,086</u>

(i) Fair values and credit risk

Due to the short term nature of these payables the carrying values represent their respective fair values as at 31 December 2017 and 2016.

(ii) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign exchange and interest rate risk in relation to trade and other payables is provided in note 5.4.

Notes to the consolidated financial statements (continued)

4.5 Unearned revenue

Accounting Policies

Unearned revenue is recognised originally at fair value and subsequently measured at amortised cost using the effective interest rate method. Unearned revenue represents revenue that has been received by the Group for requested goods where the risks and rewards have not yet been transferred as the goods have not been substantially provided. Unearned revenue is recognised as revenue subsequent to this in accordance with the Group's revenue recognition policy (Refer note 2.2). Unearned revenue is presented as current liabilities unless payment is not due within 12 months from the reporting date.

	31 Dec 2017 \$	31 Dec 2016 \$
Unearned revenue	1,793,475	-

(i) *Fair values and credit risk*

Due to the short term nature of unearned revenue, the carrying values represent their respective fair values as at 31 December 2017 and 2016.

(ii) *Foreign exchange and interest rate risk*

Information about the Group's exposure to foreign exchange and interest rate risk in relation to unearned revenue is provided in note 5.4.

5. Funding and Risk Management

This section provides information relating to the management of capital, credit, liquidity and market risks and the policies for measuring and managing these risks.

5.1 Interest bearing loans and borrowings

Accounting Policies

All loans and borrowings are initially recognised at cost, being fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting periods.

Details of the contractual maturities can be found in Note 5.4.

Notes to the consolidated financial statements (continued)

5. Funding and Risk Management (continued)

5.1 Interest bearing loans and borrowings (continued)

	31 Dec 2017 \$	31 Dec 2016 \$
Current		
Short term borrowings – unsecured (1)	5,770	1,135,523
Amounts due under equipment acquisition agreements (2),(3)	566,550	1,317,069
Long term borrowings – secured (4)	1,500,000	-
	2,072,320	2,452,592
Non-current		
Long term borrowings – secured (4)	2,125,000	4,500,000
Amounts due under equipment acquisition agreements (2),(3)	8,721	437,073
	2,133,721	4,937,073

- (1) The short term borrowings at 31 December 2016 was in relation to shareholder loans (note 7.3). The amount was fully repaid immediately after the 2016 year end.
- (2) The Group entered into Master Rental Agreements to acquire mobile mining equipment and generators. Under the terms of these agreements, there was an option to purchase which the Group exercised for the mobile mining equipment.
- (3) The Group entered into Instalment Sale Agreements to acquire mobile mining equipment and other equipment. Under the terms of these agreements, the Group will become the owner of the mobile mining equipment on final payment under the agreements.
- (4) The Group entered into a \$4.5 million financing arrangement with GMA for its Garnet Stripping Plant (“GSP”) expansion. Under the terms of the agreement, the borrowing is charged at Libor + 2% and repaid over three years from the repayment commencement date. The borrowing is secured by a special notarial bond over the GSP. Repayment commenced in June 2017. Repayments of US\$0.125 million per month commenced in June 2017, with the principal owing at 31 December 2017 at US\$3.625 million.

a) Bank Overdraft

The Group has available and unutilised, as at 31 December 2017, a United States denominated Foreign Currency Overdraft Facility of \$0.6 million (A\$0.7 million) (2016:\$1.1 million (A\$1.5 million)).

b) Finance lease commitments

Accounting Policies

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

Notes to the consolidated financial statements (continued)

5. Funding and Risk Management (continued)

5.1 Interest bearing loans and borrowings (continued)

b) Finance lease commitments (continued)

Commitments in relation to minimum lease repayments under equipment acquisition agreements:

	31 Dec 2017 \$	31 Dec 2016 \$
Within one year	543,468	1,346,555
Later than one year but no later than five years	10,820	442,496
Greater than 5 years	-	-
Minimum lease payments	554,288	1,789,051
Less: Future Finance Charges	(40,707)	(139,473)
	513,581	1,649,578

Finance lease commitments includes contracted amounts for various plant and equipment with a written down value of \$1,683,771 (2016: \$1,949,556) secured under finance leases expiring within one to five years. Under the terms of the leases, the Group will become the owner of the leased assets on the final payment under instalment sale agreements.

5.2 Net finance costs

Accounting Policies

Interest income is recognised as it accrues on a time proportion basis using the effective interest method.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

	31 Dec 2017 \$	31 Dec 2016 \$
Finance income		
Interest Income	46,030	42,704
Unwind the effect of discounting on long term receivables	303,858	116,334
Net change in fair value of financial assets	515,051	-
Total finance income	864,939	159,038
Finance costs		
Interest paid to third parties	70,761	189,529
Total finance costs	70,761	189,529
Net finance income / (costs)	794,178	(30,491)

Notes to the consolidated financial statements (continued)

5. Funding and Risk Management (continued)

5.3 Equity

(a) Contributed equity

Accounting Policies

Ordinary share capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(i) Share capital

	2017 Number of shares	2016 Number of shares	2017 \$	2016 \$
Ordinary shares Fully paid	414,941,571	404,941,571	64,420,299	63,437,092

(ii) Movements in ordinary share capital

Details	Number of shares	\$
At 1 January 2017	404,941,571	63,437,092
Placement of ordinary shares	10,000,000	983,207
At 31 December 2017	414,941,571	64,420,299
Transaction costs arising on share issue	-	-
At 31 December 2017	414,941,571	64,420,299

(iii) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(iv) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets in order to maintain sufficient funds necessary to continue its operations.

Notes to the consolidated financial statements (continued)

5. Funding and Risk Management (continued)

5.3 Equity (continued)

(b) Reserves

The following table shows a breakdown of the balance sheet line item 'other reserves' and the movements in these reserves during the year. A description of the nature and purpose of each reserve is provided in the table below.

	General reserve	Financial asset revaluation reserve	Foreign currency translation reserve	Share based payment reserve	Total
	\$	\$	\$	\$	\$
At 1 January 2016	1,363,393	(226,521)	(22,091,136)	445,344	(20,508,920)
Issue of unlisted options	-	-	-	134,458	134,458
Transfer to retained earnings on expiry of unlisted options	-	-	-	(261,507)	(261,507)
Exchange differences on translation of foreign operations	-	-	3,496,590	-	3,496,590
Change in fair value of available-for-sale financial assets	-	(50,380)	-	-	(50,380)
At 1 January 2017	1,363,393	(276,901)	(18,594,546)	318,295	(17,189,759)
Issue of share based payments	-	-	-	309,782	309,782
Exchange differences on translation of foreign operations	-	-	3,486,282	-	3,486,282
Impairment of available-for-sale financial assets	-	276,901	-	-	276,901
At 31 December 2017	1,363,393	-	(15,108,264)	628,077	(13,116,794)

Nature and purpose of reserves

General reserve

The General reserve arose from the issue of shares in MRC Resources Proprietary Limited to an entity outside the economic entity.

Financial asset revaluation reserve

The financial asset revaluation reserve arises from the revaluation at reporting date of available-for-sale financial assets.

Foreign currency translation reserve

The foreign currency translation reserve records the unrealised foreign currency differences arising from the translation of operations into the presentation currency of the Group.

Share based payment reserve

Records the amounts received in a prior year together with the amounts amortised for employee options in the current year from the issue of listed options.

Notes to the consolidated financial statements (continued)

5. Funding and Risk Management (continued)

5.3 Equity (continued)

(c) Accumulated losses

	31 Dec 2017 \$	31 Dec 2016 \$
At 1 January	(10,240,395)	(11,365,331)
Profit for the year	9,932,930	3,777,834
Dividend Distribution	(5,181,303)	(2,914,405)
Transfer from reserves on expiry of unlisted options	-	261,507
At 31 December	(5,488,768)	(10,240,395)

(d) Non-controlling interest

	31 Dec 2017 \$	31 Dec 2016 \$
At 1 January	113,639	113,639
Movement for the year	-	-
At 31 December	113,639	113,639

5.4 Financial risk management

Accounting Policies

The Group classifies its financial instruments on initial recognition. The classification depends on the purpose for which the financial instrument was acquired.

(i) Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade date; the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(ii) Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value of all unlisted securities, including recent arm's length transactions, reference to similar instruments and other pricing models.

The Group uses derivative financial instruments such as forward foreign currency contracts to hedge its risk associated with foreign currency fluctuations. Such derivatives are stated at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Changes in the fair value of forward foreign currency contracts are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(iii) Financial Liabilities

Financial liabilities are recognised initially at fair value and subsequently at amortised cost, comprising original debt less principal payments and amortisation of transaction costs.

(iv) Impairment

At each reporting date, the Group assess whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in profit or loss. Impairment losses recognised on equity instruments classified as available for sale are not reversed through the income statement.

Notes to the consolidated financial statements (continued)

5. Funding and Risk Management (continued)

5.4 Financial risk management (continued)

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit or loss information has been included where relevant to add further context.

The Group's activities expose it to a variety of financial risks, as detailed in the below table:

Risk	Exposure arising from	Measurement	Management
Market risk – foreign exchange risk	Future commercial transactions Recognised financial assets and liabilities not denominated in USD	Cash flow forecasting Sensitivity analysis	Monitoring the prevailing exchange rates and entering into forward foreign exchange contracts and/or currency options, if deemed necessary by the Board of Directors
Market risk – interest rate risk	The Company's borrowings are at fixed interest rates, therefore, it is not exposed to changes in variable interest rates	N/A	N/A
Market risk – price risk	Investments in equity securities	Sensitivity analysis	NA
Market risk – commodity price risk	Sale of products	Cash flow forecasting Sensitivity analysis	Monitoring the prevailing commodity prices and entering into longer term fixed price sales contracts, if deemed necessary by the Board of Directors
Credit risk	Cash and cash equivalents and trade and other receivables	Aging analysis Credit ratings	Credit limits, retention of title over product sold and letters of credit
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by the Board of Directors with assistance from the Audit, Risk and Compliance Committee.

The Group manages foreign exchange risk through hedging the South African Rand and Australian Dollar in line with its Treasury Policy. The mark-to-market position of the Group's hedged position as at 31 December 2017 was:

At 31 December 2017	Value of Hedges contracted	Mark-to-market value of hedges	Mark-to-market hedge position
	USD\$	USD\$	USD\$
South African Rand (ZAR)	3,244,000	3,759,000	515,000
Australian Dollars (AUD)	300,000	300,000	-
Total position	3,544,000	4,059,000	515,000

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

As detailed in note 1.2(iii), items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in United States dollars, which is the Company's presentation currency.

Subsequent to 31 December 2016, the Group has fully repaid its foreign currency borrowings and thus, the exposure to foreign currency risk at the end of the reporting period arising from the foreign currency borrowings is not considered material.

Notes to the consolidated financial statements (continued)

5. Funding and Risk Management (continued)

5.4 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Based on the financial instruments held at the reporting date, the sensitivity of the Group's profits after tax for the year and equity at the reporting date to movements in the United States Dollar to South African Rand (ZAR) was:

Sensitivity

	Impact on post tax profits		Impact on other components of equity	
	2017	2016	2017	2016
	\$	\$	\$	\$
USD/ZAR exchange rate – increase 10%	822,697	287,281	-	-
USD/ZAR exchange rate – decrease 10%	(822,697)	(287,281)	-	-

(ii) Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's floating interest rate cash balance which is subject to movements in interest rates. The Board monitors its cash balance on an ongoing basis and liaises with its financiers regularly to mitigate cash flow interest rate risk. Interest is charged on the loans from the parent company to the South African subsidiaries at rates permitted by the South African Reserve Bank. This interest is eliminated on consolidation.

(iii) Price risk

The Group has an exposure to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet as available-for-sale financial assets. However, the Company's investment in equity securities (available-for-sale financial assets) is \$12,595 (2016: \$12,595), which is monitored by the Board of Directors. Any investment in equity securities, which formed part of any portfolio diversification strategy, would require approval by the Board of Directors.

The Group is also exposed to commodity price risk as a result of fluctuations in the market price of commodities, however, the commodities that the Company produces and sells are not quoted on any recognised exchange.

(iv) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures including outstanding receivables and investments in unlisted entities.

All cash balances held at banks are held at internationally recognised institutions. The Group has a strict code of credit and requires the majority of its customers to have letters of credit in place. The maximum exposure to credit risk at the reporting date to trade receivables is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. The Group does not hold any collateral. As at 31 December 2017, the Group does not have any impaired receivables or receivables past due but not impaired.

(v) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet obligations when due. At the end of the reporting period, the Group held cash and cash equivalents totalling \$10,975,817 (2016: \$2,873,135). Management monitors rolling forecasts of the Group's liquidity reserve (comprising of cash and cash equivalents, note 4.1) on the basis of expected cash flows. This is carried out at the corporate level for all active companies of the Group in accordance with practice and limits set by the Group.

Notes to the consolidated financial statements (continued)

5. Funding and Risk Management (continued)

5.4 Financial risk management (continued)

(a) Market risk (continued)

(v) Liquidity risk (continued)

Financing arrangements

On 30 May 2014, the Company obtained an unsecured short term working capital facility of up to \$4m from two major shareholders. Pursuant to the Loan Agreements entered into between the Company and the two major shareholders, the lenders provided a finance facility capped at \$2.0m each on the following arm's-length and commercial terms:

- Loan is unsecured;
- Interest of 13% per annum;
- Line fee of 1% and establishment fee of 1%;
- Repayment to take in three equal tranches on 31 January 2016, 28 February 2016 and 31 March 2016; and
- Default interest of 10% if not repaid on the repayment date.

The above repayment dates were subsequently extended and the loans have been fully repaid early in the 2017 financial year.

On 2 February 2016, the Company announced debt funding arrangements for its expansion initiatives relating to a GSP at its Tormin mine. Under the terms of the agreement, the borrowing is charged at Libor + 2% and repaid over three years from the repayment commencement date. The borrowings are secured by a special notarial bond over the GSP. Principal repayments of US\$0.125 million per month plus interest charges against the facility commenced in June 2017.

Maturity of financial assets

The Group manages liquidity risk by maintaining sufficient cash reserves and through the continuous monitoring of budgeted and actual cash flows. At the reporting date there is no significant liquidity risk. The table below analyses the Group's maturity of financial assets:

	< 6 months	6 – 12 months	1 – 5 years	5+ years	Total contractual cashflows	Carrying amount
31 December 2017	\$	\$	\$	\$	\$	\$
Trade and other receivables	4,252,893	1,000,000	-	-	5,252,893	5,252,893
Total financial assets	4,252,893	1,000,000	-	-	5,252,893	5,252,893

	< 6 months	6 – 12 months	1 – 5 years	5+ years	Total contractual cashflows	Carrying amount
31 December 2016	\$	\$	\$	\$	\$	\$
Trade and other receivables	1,079,530	-	5,200,000	-	6,279,530	5,975,672
Total financial assets	1,079,530	-	5,200,000	-	6,440,647	5,975,672

Notes to the consolidated financial statements (continued)

5. Funding and Risk Management (continued)

5.4 Financial risk management (continued)

(a) Market risk (continued)

(v) Liquidity risk (continued)

Maturity of financial liabilities

The Group manages liquidity risk by maintaining sufficient cash reserves and through the continuous monitoring of budgeted and actual cash flows. At the reporting date there is no significant liquidity risk. The table below analyses the Group's maturity of financial liabilities:

	< 6 months	6 – 12 months	1 – 5 years	5+ years	Total contractual cashflows	Carrying amount
31 December 2017	\$	\$	\$	\$	\$	\$
Trade and other payables	3,691,145	-	-	-	3,691,145	3,691,145
Unearned revenue	1,793,475	-	-	-	1,793,475	1,793,475
Borrowings:						
• Short term borrowings	5,770	-	-	-	5,770	5,770
• Equipment acquisition agreements	271,734	271,734	31,803	-	575,271	575,271
• Long term borrowings	818,061	801,393	2,180,560	-	3,800,014	3,625,000
Total financial liabilities	6,580,185	1,073,127	2,212,363	-	9,865,675	9,690,661

	< 6 months	6 – 12 months	1 – 5 years	5+ years	Total contractual cashflows	Carrying amount
31 December 2016	\$	\$	\$	\$	\$	\$
Trade and other payables	3,445,086	-	-	-	3,445,086	3,445,086
Borrowings:						
• Short term borrowings	1,135,522	-	-	-	1,135,522	1,135,522
• Equipment acquisition agreements	673,277	673,277	442,496	-	1,789,050	1,754,143
• Long term borrowings	-	-	4,712,981	-	4,712,981	4,500,000
Total financial liabilities	5,253,885	673,277	5,155,477	-	11,082,639	10,834,751

(vi) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The Group's only assets and liabilities held at fair value are its available-for-sale financial assets with a current carrying value of \$12,595 (2016: \$12,595). These are measured using quoted active market prices and are therefore Level 1 instruments.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2017 and did not transfer any fair value amounts between the fair value hierarchy during the year ended 31 December 2017.

Notes to the consolidated financial statements *(continued)*

5. Funding and Risk Management *(continued)*

5.4 Financial risk management *(continued)*

(a) Market risk (continued)

(vi) Fair value hierarchy (continued)

Valuation techniques used to derive level 2 and level 3 fair values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The Group has only level 2 and 3 assets and liabilities held at fair value are its mark-to-market hedges with a current carrying value of \$515,000 (2016: \$nil). These are measured by comparing forward foreign exchange contract rates with the spot rate at balance date.

6. Group structure

6.1 Consolidated entities

Accounting Policies

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associates

Associates are entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

Notes to the consolidated financial statements *(continued)*

6. Group structure *(continued)*

6.1 Consolidated entities *(continued)*

Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

Non-controlling interests

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

The Company, via its wholly owned subsidiary MRC Resources Proprietary Limited ("MRCR"), has a 50% interest in the issued capital in Mineral Sands Resources Proprietary Limited ("MSR"). Whilst the Group controls 50% of the share voting power, it has been determined that the Group effectively has 100% control due to its control over the relevant activities for accounting purposes, controls the management of MSR, and also controls the Board of MSR due to provisions set out in the Shareholders Agreement entered into between the shareholders of MSR.

Therefore these financial statements include 100% of the results of MSR. In addition to the holding of the issued capital, the Group also holds Class A and B preference shares in MSR which effectively provides for the repayment of the capital investment and deemed investment by the Company's Black Empowerment partner. Due to the terms attached to these A and B Preference Shares, they are categorised as an equity instrument. As the A preference shares and B preference shares would be redeemed out of distributable profits and net assets of MSR before all other ordinary shareholders, until such time as the net assets exceed the value of the unredeemed A and B preference shares, no value has been attributed to the non-controlling interest. Until that time, the non-controlling interest has no rights to the assets or results of the Company, and therefore has not been allocated any value in these financial statements.

Notes to the consolidated financial statements (continued)

6. Group structure (continued)

6.1 Consolidated entities (continued)

(i) Material subsidiaries

The Group's principal subsidiaries at 31 December 2017 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of business / country of incorporation	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
		2017 %	2016 %	2017 %	2016 %
Rexelle Pty Ltd	Australia	100	100	-	-
MRC Trading (Aust) Pty Ltd	Australia	100	100	-	-
MRC Cable Sands Pty Ltd	Australia	100	100	-	-
Blackhawk Oil and Gas Pty Ltd	Australia	100	100	-	-
Queensland Minex Pty Ltd	Australia	100	100	-	-
Q Smelt Pty Ltd	Australia	90	90	10	10
Mincom Waste Pty Ltd	Australia	100	100	-	-
MRC Graphite Pty Ltd ⁽¹⁾	Australia	100	100	-	-
MRC Exploration Australia Pty Ltd ⁽²⁾	Australia	100	100	-	-
Skeleton Coast Resources (Pty) Ltd	Namibia	100	100	-	-
MRC Resources Proprietary Limited	South Africa	100	100	-	-
Mineral Sands Resources Proprietary Limited	South Africa	50	50	50	50
Tormin Mineral Sands Proprietary Limited ⁽³⁾	South Africa	50	50	50	50
Nyati Titanium Eastern Cape Proprietary Limited	South Africa	100	100	-	-
MRC Metals Proprietary Limited	South Africa	100	100	-	-
Transworld Energy and Minerals Resources (SA) Proprietary Limited	South Africa	56	56	44	44
Madan Rahjo Kanyab Company (Private Joint Stock) ⁽⁴⁾	Iran	100	-	-	-
Zamin Afzar Ofogh Company (Private Joint Stock) ⁽⁵⁾	Iran	90	-	10	-

- (1) MRC Graphite Pty Ltd previously known as MRC Africa Pty Ltd. The company name was changed on 18 September 2017
- (2) MRC Exploration Australia Pty Ltd was incorporated on 11 October 2017
- (3) Tormin Mineral Sands Proprietary Limited is a wholly owned subsidiary of Mineral Sands Resources Proprietary Limited
- (4) Madan Rahjo Kanyab Company (Private Joint Stock) was incorporated on 13 August 2017
- (5) Zamin Afzar Ofogh (Private Joint Stock) was incorporated on 4 October 2017

Notes to the consolidated financial statements (continued)

6. Group structure (continued)

6.1 Consolidated entities (continued)

(ii) Non-controlling interest ("NCI")

	Transworld Energy and Minerals Resources (SA) Proprietary Limited		Mineral Sands Resources Proprietary Limited		Tormin Mineral Sands Proprietary Limited		Q Smelt Pty Ltd	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Summarised balance sheet								
Current assets	6,451	-	59,596,046	33,436,612	-	-	-	1
Current liabilities	-	(16,737)	(33,952,503)	(23,807,550)	-	-	-	-
Current net assets	6,451	(16,737)	25,643,543	9,629,062	-	-	1	1
Non-current assets	6,046,442	5,170,073	25,629,056	25,033,375	5,218,099	5,218,099	-	-
Non-current liabilities	(5,888,174)	(5,004,491)	(31,527,892)	(24,797,349)	-	-	-	-
Non-current net assets	158,268	165,582	(5,898,836)	236,026	5,218,099	5,218,099	-	-
Net assets	164,719	148,845	19,744,707	9,865,088	5,218,099	5,218,099	1	1
Accumulated NCI	-	-	-	-	-	-	39,933	39,933
Summarised statement of comprehensive income								
Revenue	-	-	63,013,908	27,036,542	-	-	-	-
Profit/ (loss) for the period	364	5,429	1,647,503	204,294	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	364	5,429	1,647,503	204,294	-	-	-	-
Profit attributable to NCI	-	-	-	-	-	-	-	-
Summarised cash flows								
Cash flows from operating activities	(24,146)	43,890	(39,210,272)	(19,141,614)	-	-	-	-
Cash flows from investing activities	24,267	(43,851)	41,601,383	13,443,438	-	-	-	-
Cash flows from financing activities	-	-	(2,344,390)	4,220,005	-	-	-	-
Net increase in cash and cash equivalents	121	39	46,721	(1,478,171)	-	-	-	-

Zamin Afzar Ofogh Company was incorporated on 4th October 2017 and remained dormant as at 31 December 2017.

Notes to the consolidated financial statements (continued)

6. Group structure (continued)

6.2 Parent entity financial information

The financial information for the parent entity, Mineral Commodities Ltd, has been prepared on the same basis as the consolidated financial statements, unless stated otherwise.

Accounting Policies

Interests in subsidiaries

Investments in subsidiaries are carried in the Company's financial report at cost less any impairment losses. Dividends and distributions are brought to account in profit when they are declared by the subsidiaries.

Investments in associates

Investments in associates are accounted for in the parent entity financial statements using the cost method.

The individual financial statements for the parent entity show the following aggregate numbers:

	31 Dec 2017 \$	31 Dec 2016 \$
Balance sheet		
Current assets	3,247,013	1,744,251
Non-current assets	51,292,218	39,063,074
Total assets	54,539,231	40,807,325
Current liabilities	728,525	1,717,286
Non-current liabilities	31,729,757	15,859,771
Total liabilities	32,458,282	17,577,057
Net assets	22,080,949	23,230,268
<i>Shareholders' equity</i>		
Issued capital	64,420,299	63,437,092
Reserves	(27,875,500)	(28,200,926)
Accumulated losses	(14,463,850)	(12,005,898)
Total equity	22,080,949	23,230,268
Profit/ (loss) for the year	672,539	(177,233)

Notes to the consolidated financial statements (continued)

7. People

This section provides information in relation to the Group employee benefits, share-based payment schemes and related party transactions.

7.1 Employee Benefits

Accounting policies

Provision is made for the Group's liability for employee entitlements arising from services rendered by employees to reporting date. These benefits include annual and long service leave. Sick leave is non-vesting and has not been provided for.

Employee entitlements expected to be settled within one year have been measured at the amounts expected to be paid when the liabilities are settled and are recognised in other payables.

The contributions made to defined contribution superannuation funds by entities within the consolidated entity are charged against profits when due.

	31 Dec 2017 \$	31 Dec 2016 \$
Current		
Annual leave provision	362,760	326,347
Non-current		
Long service leave provision	73,273	49,198

7.2 Share based payments

Accounting policies

Equity-settled share-based compensation benefits are provided to certain senior employees.

Equity-settled transactions are awards of options over shares that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions is measured at fair value at grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. No account is taken of any other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative change to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Notes to the consolidated financial statements (continued)

7. People (continued)

7.2 Share based payments (continued)

a) Employee Options

The issue of employee options was approved by shareholders at a general meeting of the Company held on 21 December 2012. The employee option plan ("the Plan") is designed to provide long-term incentives for senior managers and above (including directors) to deliver long-term shareholder returns. Options granted under the plan carry no dividend or voting rights. When exercisable each option is convertible into one ordinary share at the predetermined exercise price.

Set out below are summaries of options granted under the Plan and unexpired at 31 December 2017:

Grant date	Expiry date	Average Exercise price	Fair Value at grant date	Options at the start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Lapsed during the year	Balance at the end of the year	Vested at the end of the year
27 May 2015	30 May 2018	20 cents	4.90 cents	5,000,000	-	-	-	-	5,000,000	5,000,000
07 Sept 2015	31 Mar 2018	20 cents	5.40 cents	1,000,000	-	-	-	-	1,000,000	1,000,000
				6,000,000	-	-	-	-	6,000,000	6,000,000

Set out below are summaries of options granted under the Plan and unexpired at 31 December 2016:

Grant date	Expiry date	Average Exercise price	Fair Value at grant date	Options at the start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Lapsed during the year	Balance at the end of the year	Vested at the end of the year
27 May 2015	30 May 2018	20 cents	4.90 cents	5,000,000	-	-	-	-	5,000,000	3,333,334
07 Sept 2015	31 Mar 2018	20 cents	5.40 cents	1,000,000	-	-	-	-	1,000,000	666,667
				6,000,000	-	-	-	-	6,000,000	4,000,001

The weighted average remaining contractual life of options outstanding at end of period is 0.42 years (2016: 0.83 years)

Fair value of options granted

The assessed fair value at grant date of options issued in the prior period was independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. The total share based payment expense for the year ended 31 December 2017 was \$15,242 (2016: \$66,693).

b) Performance Rights

The issue of Performance Rights was approved by shareholders at a general meeting of the Company held on 25 May 2016. The Incentive Performance Rights Plan are designed to provide long-term incentives for senior managers and above (including directors) to deliver long-term shareholder returns. Performance Rights granted under the plan carry no dividend or voting rights.

On 25th May 2016, at the AGM of the Company, shareholders approved the issue of 4,000,000 Performance Rights to the four non-executive directors. These performance rights are exercisable on or before 30 May 2019 and will vest upon the closing Share price reaching \$0.20 and remaining at or above \$0.20 for a period of 5 consecutive trading days.

On 16th August 2017, the Board approved the issue of 2,000,000 Performance Rights to the CFO, Tony Sheard. These performance rights are exercisable on or before 31 May 2020 with 1,500,000 vesting upon the closing share price reaching \$0.20 and remaining at or above \$0.20 for a period of 5 consecutive trading days. The remaining 500,000 will vest 12 months from date of issue and upon the closing share price reaching \$0.20 and remaining at or above \$0.20 for a period of 5 consecutive trading days.

On 16th August 2017, the Board approved the issue of 500,000 Performance Rights to senior managers. These performance rights are exercisable on or before 31 May 2020, vesting on 31 May 2018 and upon the closing share price reaching \$0.20 and remaining at or above \$0.20 for a period of 5 consecutive trading days.

Notes to the consolidated financial statements (continued)

7. People (continued)

7.2 Share based payments (continued)

b) Performance Rights (continued)

On 16th August 2017, the Board approved the issue of 450,000 Performance Rights to senior managers. These performance rights are exercisable on or before 31 May 2021, vesting at a rate of 150,000 per annum on 31 May 2018 to 2020 inclusive and upon the closing share price reaching \$0.20 and remaining at or above \$0.20 for a period of 5 consecutive trading days.

Set out below are summaries of all Performance Rights granted under the Plan and unexpired at 31 December 2017:

Grant date	Expiry date	Exercise price	Fair Value at grant date	Rights at the start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Lapsed during the year	Balance at the end of the year	Vested at the end of the year
25 May 2016	30 May 2018	20 cents	11.3 cents	4,000,000	-	-	-	-	4,000,000	-
16 Aug 2017	31 May 2020	20 cents	11.8 cents	-	2,000,000	-	-	-	2,000,000	-
16 Aug 2017	31 May 2020	20 cents	11.8 cents	-	500,000	-	-	-	500,000	-
16 Aug 2017	31 May 2021	20 cents	11.8 cents	-	450,000	-	-	-	450,000	-
				4,000,000	2,950,000	-	-	-	6,950,000	-

Set out below are summaries of all Performance Rights granted under the Plan and unexpired at 31 December 2016:

Grant date	Expiry date	Exercise price	Fair Value at grant date	Rights at the start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Lapsed during the year	Balance at the end of the year	Vested at the end of the year
25 May 2016	30 May 2018	20 cents	11.3 cents	-	4,000,000	-	-	-	4,000,000	-
				-	4,000,000	-	-	-	4,000,000	-

Fair value of Performance Rights granted

The assessed fair value at grant date of the Performance Rights issued during the period ended 31 December 2017 was determined using a trinomial option pricing model that takes into account the exercise price, the term of the Performance Right, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the Performance Right. The total share based payment expense for the period ended 31 December 2017 was \$289,028 (2016: \$67,765).

The model inputs for Performance Rights granted during the period, as well as prior periods, included:

- (a) Performance Rights granted for no consideration with the expectation that the majority of the Performance Rights would be exercised on the Share price reaching \$0.20 and remaining at or above \$0.20 for a period of 5 consecutive trading days.

	(i)	(ii)	(iii)	(iv)
(b) Number of Rights issued	4,000,000	2,000,000	500,000	450,000
(c) Exercise price (AUD)	0 cents	0 cents	0 cents	0 cents
(d) Share price barrier (AUD)	20 cents	20 cents	20 cents	20 cents
(e) 5 day VWAP of underlying security	13.5 cents	13.5 cents	13.5 cents	13.5 cents
(f) Grant date	25 May 2016	16 Aug 2017	16 Aug 2017	16 Aug 2017
(g) Risk-free interest rate	1.62%	1.98%	1.98%	1.98%
(h) Exercise date	30 May 2019	31 May 2020	31 May 2020	31 May 2021
(i) Share price at grant date (AUD)	13.5 cents	13.5 cents	13.5 cents	13.5 cents
(j) Expected price volatility of the shares	60%	90%	90%	90%
(k) Expected dividend yield	Nil	8%	8%	8%

The expected price volatility is based on the historic volatility and the general trend in share prices of the companies in similar businesses and trading on the ASX over the past 12 months.

Notes to the consolidated financial statements (continued)

7. People (continued)

7.3 Related party transactions

(i) Parent entity

Transactions between the Company and other entities in the Group during the years ended 31 December 2017 and 31 December 2016 consisted of loans advanced and payments received and made on inter-company accounts. These transactions were made on normal commercial terms and conditions and at market rates.

(ii) Key management personnel disclosures

Compensation

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

	31 Dec 2017 \$	31 Dec 2016 \$
Short-term employee benefits	1,308,505	1,064,125
Post-employment benefits	55,212	43,787
Long-term benefits	47,910	20,836
Share-based payments	155,459	134,458
	1,567,086	1,263,206

Detailed remuneration disclosures are provided in the remuneration report in the director's report on page 18.

(iii) Transactions with other related parties

Mine Site Construction Services ("MSCS"), a company associated with Mr Mark Caruso and Mr Joseph Caruso has provided the followings services to the Company during 2017:

- Provision of executive services

The amount paid by the Company to MSCS for the year ended 31 December 2017 was \$134,155 (2016: \$nil). This is considered to be an arm's length commercial consultancy contract at normal commercial rates.

- Provision of office space

The amount paid by the Company to MSCS for the year ended 31 December 2017 was \$158,510 (2016: \$90,199). This is considered to be an arm's length commercial rent. There is a formal lease in place.

- Provision of secretarial staff to the Executive Chairman.

The amount paid by the Company to MSCS for the year ended 31 December 2017 was \$82,372 (2016: \$76,329). The amounts payable are pursuant to an Executive Service Agreement and have been reimbursed on an arm's length basis at normal commercial rates.

- Provision of technical staff

The amount paid by the Company to MSCS for the year ended 31 December 2017 was \$288,627 (2016: \$210,413). The amounts payable have been in respect to the provision of technical staff at the Groups' head office and at the Tormin project and have been reimbursed on an arms-length basis at normal commercial rates.

Notes to the consolidated financial statements (continued)

7. People (continued)

7.3 Related party transactions (continued)

- Others

The amount paid by the Company to MSCS for the year ended 31 December 2017 was \$202,267 (2016: \$127,799). The amounts payable have been in respect of telecommunication charges and miscellaneous payments made by MSCS on behalf of the Company. The amounts have been reimbursed on an arms-length basis at normal commercial rates.

Ross Hastings, one of the Directors has provided consulting services to one of the Company's projects during the year ended 31 December 2017. The amount paid by the Company to Ross Hastings for the year ended 31 December 2017 was \$7,934 (2016: \$6,306). The amounts payable have been reimbursed on an arm's length basis at normal commercial rates.

Hastings Bell Pty Ltd, a Company associated with Daniel Hastings, the son of Ross Hastings has provided business development consultancy services to the Company during 2017. The amount paid by the Company to Hastings Bell Pty Ltd for the year ended 31 December 2017 was \$185,452 (2016: \$nil). This is considered to be an arm's length commercial consultancy contract at normal commercial rates.

(iv) Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	31 Dec 2017 \$	31 Dec 2016 \$
MSCS	<u>56,721</u>	106,049

(v) Loans to / from related parties

On 30 May 2014, the Company obtained an unsecured short term working capital facility of up to \$4m from major shareholders. This included a A\$2 million facility provided by Regional Management Pty Ltd ("RMS"), a related party of Mark Caruso, the Executive Chairman of the Company.

Pursuant to the Loan Agreement entered into between the Company and RMS, the lender provided a finance facility capped at A\$2 million on the following arm's-length and commercial terms:

- Loan is unsecured;
- Interest of 13% per annum;
- Line fee of 1% and establishment fee of 1%;
- Repayment to take in three equal tranches on 31 January 2016, 28 February 2016 and 31 March 2016; and
- Default interest of 10% if not repaid on the repayment date.

The loan repayments dates were subsequently extended. As at 31 December 2016, the amount owing was \$583,044. The loan has been fully repaid in the 2017 financial year.

Notes to the consolidated financial statements *(continued)*

8. Other

This section provides information that is not directly related to the specific line items in the financial statements, including information about contingent assets and liabilities, other commitments, events after the end of the financial year, remuneration of auditors and changes to accounting policies and procedures.

8.1 Contingent assets and contingent liabilities

a) Contingent liabilities

Bank guarantees

FirstRand Bank Limited has issued a Bank Guarantee, in favour of the South African Department of Mineral Resources, in respect of MSR's obligations under the Tormin Mining Right for an amount of ZAR2,730,000 (US\$220,467) (2016: ZAR2,730,000 (US\$198,141)).

Subordination of Shareholders Loan

With effect from 26th March 2015, MRC Resources Proprietary Limited ("MRCR") has subordinated ZAR90,000,000 (US\$7,268,130) (2016: ZAR90,000,000 (US\$5,790,798)) of its inter-company loan account to FirstRand Bank Limited for the due payment by MSR of all monies owed to FirstRand Bank Limited.

Suretyship

With effect from 26th March 2015, MRCR has provided a surety to FirstRand Bank Limited of ZAR45,000,000 (US\$3,634,065) (2016: ZAR45,000,000 (US\$3,266,055)) for the due payment by MSR of all monies owed to FirstRand Bank.

With effect from 15th September 2016, MSR has provided a surety to FirstRand Bank Limited of ZAR4,614,788 (US\$372,676) (2016: ZAR4,614,788 (US\$334,937)) for the due payment by Z Square M.P. Empowerment Company (Pty) Ltd of all monies owed to FirstRand Bank.

Other than those mentioned above, there have been no other changes to contingent assets or liabilities since 31 December 2017.

8.2 Other Commitments

Blue Bantry funding support

The Company, via MRCR, and Blue Bantry are both 50% shareholders in MSR, the entity which owns the Tormin Project.

The Company agreed to provide Blue Bantry access to an amount of funding to support the original Tormin Project objectives by advancing through a loan, certain benefits Blue Bantry would expect to receive from the Tormin Project. Blue Bantry will repay the ZAR8,250,000 loan from dividend distributions that it will receive in the future from MSR.

8.3 Events since the end of the financial year

Subsequent to year end, the Directors declared a final unfranked dividend for the year ended 31 December 2017 of 0.7 Australian cent per ordinary share, a total distribution of A\$2,904,594 based on the number of ordinary shares on issue as at 31 December 2017. As the dividend was unfranked, there are income tax consequences for the owners of the Company relating to this dividend.

Except for the above, there have been no other material matters arising subsequent to the end of the financial year.

Notes to the consolidated financial statements (continued)

8. Other

8.4 Remuneration of auditors

During the year, the following fees were paid or payable for services provided by BDO Audit (WA) Pty Ltd and BDO Tax (WA) Pty Ltd, its related practices and related firms:

	31 Dec 2017 \$	31 Dec 2016 \$
Audit services		
<i>Audit and review of financial reports</i>		
BDO Audit (WA) Pty Ltd	42,000	44,020
BDO Johannesburg South Africa	22,357	23,597
	64,357	67,617
Non-audit services		
<i>Taxation and company secretarial (South African entities)</i>		
BDO Tax (WA) Pty Ltd	53,135	71,552
BDO Johannesburg South Africa	-	-
	53,135	71,552

8.5 Accounting Policies

a) New standards and interpretations not yet adopted

The Group has not elected to apply any pronouncements before their effective date for the annual reporting period ended 31 December 2017.

A number of new standards, amendments to standards and interpretations are effective for annual period beginning on or after 1 January 2018, and have not been applied in preparing these consolidated financial statements. The most significant of these are:

- IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* (both mandatorily effective for periods beginning on or after 1 January 2018); and
- IFRS 16 (mandatorily effective for periods beginning on or after 1 January 2019).

The Group's assessment of the impact of these new standards, amendments to standards and interpretations is set out below:

Reference	Title	Nature of Change	Application date of standard	Impact on entity financial statements	Application date for entity
AASB 9 (issued December 2014)	Financial Instruments	Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. Under AASB 9, there are three categories of financial assets: • Amortised cost • Fair value through profit or loss • Fair value through other comprehensive income. AASB 9 requires that gains or losses on financial liabilities measured at fair value are	Annual reporting periods beginning on or after 1 January 2018	Adoption of AASB 9 is only mandatory for the year ending 31 December 2018. The entity has not yet made an assessment of the impact of these amendments. The entity has financial assets classified as available-for-sale. When AASB 9 is first adopted, the entity will reclassify these into the fair value through profit or loss category. On 1 January 2018, the cumulative fair value changes in the available-for-sale reserve will be reclassified into retained earnings and	1 January 2018

Reference	Title	Nature of Change	Application date of standard	Impact on entity financial statements	Application date for entity
		recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income. Impairment The new impairment model in AASB 9 is now based on an 'expected loss' model rather than an 'incurred loss' model. A complex three stage model applies to debt instruments at amortised cost or at fair value through other comprehensive income for recognising impairment losses. A simplified impairment model applies to trade receivables and lease receivables with maturities that are less than 12 months. For trade receivables and lease receivables with maturity longer than 12 months, entities have a choice of applying the complex three stage model or the simplified model.		subsequent fair value changes will be recognised in profit or loss. The change is applied retrospectively, however comparatives need not be retrospectively restated. Instead, the cumulative effect of applying the change for the first time will be recognised as an adjustment to the opening balance of retained earnings on 1 January 2018. The entity has both long term and short term trade receivables. When this standard is adopted, the entity's loss allowance on trade receivable will increase. The change is applied retrospectively, however comparatives need not be retrospectively restated. Instead, the cumulative effect of applying the change for the first time is recognised as an adjustment to the opening balance of retained earnings on 1 January 2018.	
AASB15 IFRS 15 (issued December 2014)	Revenue from contracts with customers	An entity will recognise revenue to depict the transfer of promised good or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue.	Annual reporting periods beginning on or after 1 January 2018.	The entity operates in the mining industry and recognises revenue for sale of mineral sands per note 2.2. When this standard is first adopted, revenue for sale of mineral sands will instead be recognised when control of goods is transferred. Preliminary assessment indicates no material impact on revenue recognition from the implementation of this standard. Comparatives will need to be retrospectively restated, either back to 1 January 2017 if the full retrospective transitional requirements are applied, or to 1 January 2018 if the modified retrospective transitional requirements are applied. Modified retrospective restatement requires that the cumulative effect of applying AASB 15 for the first time be recognised as an adjustment to the opening balance of retained earnings on 1 January 2018.	1 January 2018

Reference	Title	Nature of Change	Application date of standard	Impact on entity financial statements	Application date for entity
AASB 16 (issued February 2016)	Leases	AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 <i>Leases</i>. It instead requires an entity to bring most leases into its statement of financial position in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its statement of financial position for most leases. There are some optional exemptions for leases with a period of 12 months or less and for low value leases. Lessor accounting remains largely unchanged from AASB 117.	Annual reporting periods beginning on or after 1 January 2019.	To the extent that the entity, as lessee, has significant operating leases outstanding at the date of initial application, 1 January 2019, right-of-use assets will be recognised for the amount of the unamortised portion of the useful life, and lease liabilities will be recognised at the present value of the outstanding lease payments. Thereafter, earnings before interest, depreciation, amortisation and tax (EBITDA) will increase because operating lease expenses currently included in EBITDA will be recognised instead as amortisation of the right-of-use asset, and interest expense on the lease liability. However, there will be an overall reduction in net profit before tax in the early years of a lease because the amortisation and interest charges will exceed the current straight-line expense incurred under AASB 117 <i>Leases</i>. This trend will reverse in the later years. There will be no change to the accounting treatment for short-term leases less than 12 months and leases of low value items, which will continue to be expensed on a straight-line basis.	1 January 2019

No other standards, interpretations or amendments which have been issued are expected to have an impact on the Group.

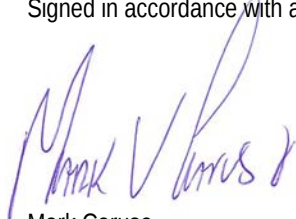
Directors' declaration

The Directors of the Company declare that:

1. The financial statements, comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and accompanying notes, are in accordance with the Corporations Act 2001 including;
 - (a) complying with Australian Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the year ended on that date.
2. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. 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.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors:



Mark Caruso

Executive Chairman

Dated at Perth, Western Australia this 28th day of February 2018

INDEPENDENT AUDITOR'S REPORT

To the members of Mineral Commodities Ltd

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Mineral Commodities Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated balance sheet as at 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

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 of the current period. These 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.

Carrying value of mine assets

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
For the year ended 31 December 2017 the Group had property, plant and equipment of US\$17.028 million (2016: US\$16.103 million) and mine development of US\$7.307 million (2016: US\$7.656 million) as disclosed in Notes 3.3 and 3.2 respectively. Estimation and judgment is used in determining the useful life and amortisation rates for mining assets. The company is also required to assess for indicators of impairment at each reporting period. As the carrying value of mine assets represents a significant asset of the Group, we considered it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount. During the year the Group identified indicators of possible impairment which included the issues obtaining extended mining rights. As a result the Group undertook an impairment assessment on the mine assets and concluded no impairment was required. This impairment assessment required key estimates and judgements to be used in determining whether impairment was required.	Our work included, but was not limited to the following procedures: - Assessing key inputs used in the impairment assessment including finished product pricing, directly attributable costs, recovered grades, discount rate and production and processing volumes against board approved forecast and historical actual results. - Assessing the appropriateness of the period for which future cash flows were included in the impairment assessment. This included the consideration of the Group's current mining licence tenure, open applications with the DMR and legal opinion on these matters. - We also considered the impact of the updated mineral resource statement against management's assessment of the life of mine and the depreciation and amortisation of mining assets. - We assessed the adequacy of related disclosures in Note 3 of the financial statements.

Revenue recognition

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
For the year ended 31 December 2017 the Group recognised US\$60.930 million (2016: US\$26.876 million) as revenue from sale of product as disclosed in Note 2.2 of the financial report. Revenue recognition was identified as a key audit matter due to the significance of revenue to the financial report and the nature of a significant offtake arrangement, which includes deferred delivery arrangements.	Our procedures included, amongst others: • We discussed with management and critically assessed the Group's revenue recognition policy including enquiring with management as to any changes to revenue recognition policies or practice during the year. • We obtained and reviewed offtake arrangements, including any variations and critically assessed the key terms against the revenue recognition policies adopted by the Group. • We analytically reviewed revenue recorded during the year by setting expectations based upon internal production and survey volumes against average contract pricing received during the year. • We assessed the basis for deferring unearned revenue at the reporting date, assessing against the Group's Accounting Policies and offtake terms. • We assessed a sample of revenue transactions through comparison to sales contracts signed by the customer and bills of lading or final analysis certificates. • We evaluated whether revenue had been recorded in the correct period based on contractual terms for a sample of sales around the reporting date. We evaluated the disclosures for revenue and revenue recognition accounting policies.

Existence and valuation of Inventory

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
As at 31 December 2017, the carrying value of the Group's inventory was US\$9.142 million (2016: US\$7.997 million) as disclosed in Note 4.3 of the financial report. Inventory was identified as a key audit matter due to the judgements by management in allocating costs to various products of the mining process and the significant balance of spares and consumables at the mine site.	Our procedures included, amongst others: • BDO network component auditors attended inventory counts at the Tormin mine site and counted a sample of inventory items and compared the quantities/volumes counted to the quantities/volumes recorded. • BDO network component auditors observed for potential obsolete or damaged items. • We obtained and reviewed an independent survey report of stockpiled finished goods and compared to volumes recorded. This included assessing the competence and objectivity of the expert used and the adequacy of their work. • We reviewed management's inventory model which allocates mining costs to finished product and assessed the methodology and compared to the accounting policy adopted by the Group. • We re-performed the calculation and reconciled inputs used in the inventory model to survey results, production reports, mining costs and sales contracts. • We tested a sample of finished product to assess whether they were recorded at a value higher than what they could be sold.

Other information

The directors are responsible for the other information. The other information comprises the unaudited information contained in Directors' report for the year ended 31 December 2017, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Annual report, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and 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 identified above 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 Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

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 has 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 this 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 (<http://www.auasb.gov.au/Home.aspx>) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 25 of the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of Mineral Commodities Ltd, for the year ended 31 December 2017, 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.

BDO Audit (WA) Pty Ltd

BDO

A handwritten signature in black ink, appearing to read 'P. Murdoch', is written over a horizontal line.

Phillip Murdoch

Director

Perth, 28 February 2018