

***Mineral Commodities Ltd***  
***ACN: 008 478 653***

***APPENDIX 4E: PRELIMINARY FINAL REPORT***

***2019***

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**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

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

Current Reporting Period: 31 December 2019

Previous Corresponding Period: 31 December 2018

For and on behalf of the Directors



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**PETER TORRE**  
**COMPANY SECRETARY**  
Dated: 28 February 2020

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

| Revenue and Net Profit                                               |      |     |    | USD<br>\$'000's |
|----------------------------------------------------------------------|------|-----|----|-----------------|
| Revenue from ordinary activities                                     | up   | 12% | to | 61,784          |
| Profit from ordinary activities after tax<br>attributable to members | down | 11% | to | 7,828           |
| Net profit for the period attributable to<br>members                 | down | 11% | to | 7,828           |

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**COMMENTARY ON RESULTS AND OTHER SIGNIFICANT INFORMATION**

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**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 2019.

## **DIVIDENDS**

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

|                                               | <b>Australian<br/>Cents per<br/>share</b> | <b>Total<br/>amount<br/>A\$</b> | <b>Date of Payment</b> |
|-----------------------------------------------|-------------------------------------------|---------------------------------|------------------------|
| <b>Declared and paid during the year 2019</b> |                                           |                                 |                        |
| Final 2018 ordinary                           | 0.7                                       | 2,947,641                       | 14 May 2019            |
| Interim 2019 ordinary                         | 0.6                                       | 2,527,149                       | 14 October 2019        |
| Total amount                                  |                                           | <u>5,474,790</u>                |                        |

The Directors have deferred a decision on declaring a final dividend for the year ended 31 December 2019.

## **NET TANGIBLE ASSET BACKING**

|                                    | <b>31 Dec 2019<br/>US\$'000</b> | <b>31 Dec 2018<br/>US\$'000</b> |
|------------------------------------|---------------------------------|---------------------------------|
| Net assets                         | <b>45,989</b>                   | <b>42,051</b>                   |
| Less intangible assets             | -                               | -                               |
| Net tangible assets of the Company | <b>45,989</b>                   | <b>42,051</b>                   |

|                                                                            | <b>Number of<br/>Shares</b> | <b>Number of<br/>Shares</b> |
|----------------------------------------------------------------------------|-----------------------------|-----------------------------|
| Fully paid ordinary shares on issue at balance date                        | <b>421,191,571</b>          | <b>421,091,571</b>          |
|                                                                            | <b>US Cents</b>             | <b>US Cents</b>             |
| Net tangible asset backing per issued ordinary share<br>as at balance date | <b>10.92</b>                | <b>9.99</b>                 |

## **EARNINGS PER SHARE**

|                            |             |             |
|----------------------------|-------------|-------------|
| Basic earnings per share   | <b>1.86</b> | <b>2.10</b> |
| Diluted earnings per share | <b>1.85</b> | <b>2.08</b> |

## **AUDIT DETAILS**

The accompanying financial report has been audited.

# **Mineral Commodities Ltd**

ABN 39 008 478 653

## **Financial Report**

**31 December 2019**

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

## Corporate directory

|                                                 |                                                                                                                                             |                                                                                                                                                                                                                                            |
|-------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Directors</b>                                | Mark Victor Caruso<br>Joseph Anthony Caruso<br>Peter Patrick Torre<br>David Lewis Baker<br>Debbie Ntombela<br>Russell Gordon Tipper         | Executive Chairman and Chief Executive Officer<br>Non-Executive Director<br>Non-Executive Director and Company Secretary<br>Independent Non-Executive Director<br>Independent Non-Executive Director<br>Independent Non-Executive Director |
| <b>Principal registered office in Australia</b> | 39-43 Murray Road North<br>Welshpool WA 6106<br>Telephone: +61 (8) 6253 1100<br>Facsimile: +61 (8) 9258 3601<br>Email: info@mncom.com.au    |                                                                                                                                                                                                                                            |
| <b>Auditors</b>                                 | BDO Audit (WA) Pty Ltd<br>38 Station Street<br>SUBIACO WA 6008                                                                              |                                                                                                                                                                                                                                            |
| <b>Solicitors</b>                               | Dominion Legal Pty Ltd<br>17 Lacey Street<br>Perth WA 6000<br><br>ENSAfrica<br>150 West Street<br>Sandton Johannesburg 2196<br>South Africa |                                                                                                                                                                                                                                            |
| <b>Bankers</b>                                  | Westpac Banking Corporation<br>Brookfield Place, Tower 2<br>Level 3, 123 St Georges Terrace<br>PERTH WA 6000                                |                                                                                                                                                                                                                                            |
| <b>Share registry</b>                           | Link Market Services Limited<br>Level 12, QV1 Building<br>250 St Georges Terrace<br>Perth WA 6000                                           |                                                                                                                                                                                                                                            |
| <b>Stock exchange listing</b>                   | The Company's shares are listed on the Australian Securities Exchange (ASX)<br>under ASX Code MRC                                           |                                                                                                                                                                                                                                            |
| <b>Website address</b>                          | <a href="http://www.mineralcommodities.com">www.mineralcommodities.com</a>                                                                  |                                                                                                                                                                                                                                            |

## Competent Person Statement

The information in this report which relates to Exploration Results, Mineral Resources or Ore Reserves for Tormin is based on information compiled by Mr Bahman Rashidi, who is a member of the Australian Institute of Mining and Metallurgy ("AusIMM") and the Australian Institute of Geoscientists ("AIG"). Mr Rashidi is the Exploration Manager and a full-time employee of the Company and has over 22 years of exploration and mining experience in a variety of mineral deposits and styles. Mr Rashidi has sufficient experience which is relevant to the style of mineralisation and types of deposit under consideration and to the activity he is undertaking to qualify as a Competent Person in accordance with the JORC Code 2012.

The information from Mr Bahman Rashidi was prepared under the JORC Code (2012). Mr Rashidi 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 which relates to Mineral Resources for Munglinup is based on information compiled by Mr Chris De Vitry who is a member of the AusIMM and an independent consultant to the Company. Mr De Vitry is the Director and Principal Geologist of Manna Hill GeoConsulting Pty Ltd. Mr De Vitry has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as a Competent Person as defined by the JORC Code (2012). Mr De Vitry consents to the 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 which relates to the Ore Reserve for Munglinup is based on information compiled by Mr Daniel Hastings, who is a Member of the AusIMM. Mr Hastings is an employee of Hastings Bell Pty Ltd and a consultant to the Company. Mr Hastings has sufficient experience relevant to the type of deposit under consideration to qualify as a Competent Person as defined by the JORC Code (2012). Mr Hastings 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 is based on information compiled by Mr Allen Maynard, who is a Member of the Australian Institute of Geosciences ("AIG"), a Corporate Member of the Australasian Institute of Mining & Metallurgy ("AusIMM") and independent consultant to the Company. Mr Maynard is the Director and Principal Geologist of Al Maynard & Associates Pty Ltd and has over 38 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)"). This information was prepared and first disclosed under the JORC Code (2004). It has not been updated since to comply with the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code (2012)") 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.

The supporting information relating to the Skaland foreign estimate has not materially changed since the initial market announcement (4 April 2019 – MRC Acquires World's Highest Grade Flake Graphite Operation). Foreign estimates are not reported in accordance with the JORC code and a competent person has not done sufficient work to classify the foreign estimates as mineral resources or ore reserves in accordance with the JORC code. It is uncertain that following further work that the foreign estimates will be able to be reported as mineral resources or ore reserves in accordance with the JORC code.

## 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 2019. 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, unless otherwise stated:

Mark Victor Caruso  
Joseph Anthony Caruso  
Peter Patrick Torre  
David Lewis Baker (appointed as Director 28 August 2019)  
Russell Gordon Tipper (appointed as Director 28 August 2019)  
Debbie Ntombela (appointed as Director 28 August 2019)  
Guy Redvers Walker (ceased as Director 30 May 2019)  
Colin Ross Hastings (ceased as Director 30 May 2019)

## PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were:

- mineral sands mining and processing at the Group's Tormin Mineral Sands Operation ("Tormin" or the "Tormin Operation") in the Western Cape Province of South Africa;
- graphite mining and processing at the Group's Skaland Graphite Operation ("Skaland" or the "Skaland Operation") in northern Norway on the island of Senja;
- undertaking exploration and evaluation for the future development of the Munglinup Graphite Project ("Munglinup" or the "Munglinup Project") in the Great Southern Region of Western Australia; and
- investigations into other mineral resources, particularly through MRC Exploration Australia Pty Ltd, focused on several tenements within Western Australia.

## DIVIDENDS

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

|                                               | Australian<br>Cents per<br>share | Total<br>amount<br>A\$ | Date of Payment |
|-----------------------------------------------|----------------------------------|------------------------|-----------------|
| <b>Declared and paid during the year 2019</b> |                                  |                        |                 |
| Final 2018 ordinary                           | 0.7                              | 2,947,641              | 14 May 2019     |
| Interim 2019 ordinary                         | 0.6                              | 2,527,149              | 14 October 2019 |
| Total amount                                  |                                  | <u>5,474,790</u>       |                 |

As the final 2018 ordinary dividend and the interim 2019 ordinary dividend were partially franked, there are income tax consequences for the owners of the Company relating to these dividends.

The Directors have deferred a decision on declaring a final dividend for the year ended 31 December 2019.

## Directors' report (continued)

### REVIEW OF OPERATIONS

#### Tormin Mineral Sands Operation

Mineral Commodities Ltd ("MRC" or "the Company") is pleased to provide an update for the Company's activities during the year ended 31 December 2019.

#### Tormin Operational and Financial Performance

The Company continued its strong operating performance during the year ended 31 December 2019. The following key production and sales metrics were achieved:

| Garnet Stripping Plant/Secondary Concentrator Plant | Full Year to 31 December 2019 | Full Year to 31 December 2018 |
|-----------------------------------------------------|-------------------------------|-------------------------------|
| Tonnes processed (dmt)                              | 589,473                       | 858,631                       |
| <b>Tonnes produced (dmt)</b>                        |                               |                               |
| Garnet concentrate (net)                            | 179,057                       | 278,205                       |
| Ilmenite concentrate (net)                          | 49,937                        | 108,630                       |
| Zircon/Rutile concentrate                           | 9,939                         | 16,996                        |
| % zircon in concentrate                             | 66.74%                        | 68.31%                        |
| % rutile in concentrate                             | 15.36%                        | 17.43%                        |

In June, the Company moved to a budgeted reduction in working hours across mining and processing operations due to permitting delays which caused postponement to the higher grade expanded mining right areas covered under the S102 Expanded Mining Right Application. The Company also implemented voluntary severance packages to address excess labour capacity prior to implementing a new 5.5 day working roster system. With the reduction in operational working hours of Primary Beach Concentrator ("PBC") and Garnet Stripping Plant/Secondary Concentration Plant ("GSP/SCP") processing plants, a throughput realignment occurred to the adjusted Run of Mine ("ROM") production rate.

The optimisation of working hours and new site shift rostering ensured the resultant performance of mining and processing operations achieved real cost savings without compromising or impacting annualised production metrics significantly.

PBC ROM feed for the year was 2,400,341 tonnes at an average feed rate of 324tphr and 90.31% plant utilisation, with the throughput in line with the previous year's 2,433,801 feed tonnes.

HMC production from the PBCs produced 567,939 tonnes, compared to the prior year's 678,938 tonnes, due to anticipated lower ROM grades. Mineral processing recoveries from the PBCs remained strong, with the plants recovering 92% zircon, 88% ilmenite, 88% garnet and 76% rutile.

GSP/SCP feed of 589,473 tonnes was below the prior year's 858,631 tonnes but reflected full utilisation of available Heavy Mineral Concentrates ("HMC") feedstocks. The prior year included 151,031 tonnes of garnet stockpile refeed. The GSP/SCP operated at 89% utilisation with an infeed throughput rate of 82 tonnes per hour to optimise product recoveries, which resulted in improved recovery for zircon, rutile and ilmenite in comparison to the previous year.

Finished concentrate production was impacted by expected lower mined Total Heavy Mineral ("THM") ore grades and reduced GSP/SCP feed. Total final concentrates produced were 238,933 tonnes for the year, which was below the prior year's 403,831 tonnes. In line with declining grades and reducing feed rates to optimise recoveries the reduced final concentrate production for the year was circa 15% below budget expectations.

| Sales (wmt)               | Full Year to 31 December 2019 | Full Year to 31 December 2018 |
|---------------------------|-------------------------------|-------------------------------|
| Zircon/Rutile concentrate | 10,444                        | 17,968                        |
| Ilmenite concentrate      | 216,616                       | 106,750                       |
| Garnet concentrate        | 213,150                       | 213,281                       |

Sales revenue for the year was US\$58.3 million for a total 440,210 wet metric tonnes sold, above the prior year's revenue of US\$53.5 million for 337,999 wet metric tonnes sold.

## Directors' report (continued)

### REVIEW OF OPERATIONS (continued)

#### Tormin Mineral Sands Operation (continued)

#### Tormin Operational and Financial Performance (continued)

The increase in revenue was largely due to the strategic sale of an additional 109,866 wet metric tonnes of inventoried ilmenite concentrate. The Company achieved higher average ilmenite prices than in the previous year due to the tightening supply conditions and significantly improved customer demand. This was partially offset by lower zircon and rutile sales resulting from lower production volumes.

| Mining Production | Full Year to 31 December 2019 | Full Year to 31 December 2018 |
|-------------------|-------------------------------|-------------------------------|
| Tonnes (dmt)      | 2,509,978                     | 2,650,099                     |
| Grade             | 11.15%                        | 17.35%                        |
| Garnet            | 7.53%                         | 12.55%                        |
| Ilmenite          | 1.81%                         | 3.14%                         |
| Zircon            | 0.42%                         | 0.55%                         |
| Rutile            | 0.21%                         | 0.38%                         |
| Leucoxene         | 1.18%                         | 0.73%                         |

Mining and processing operations at the Tormin Mineral Sands mine were optimised to manage the current ROM THM beach grade and replenishment cycle. Mining and processing production has remained in line with the prior year to offset declining grades

ROM mining production in 2019 was over 10% above the December 2018 inferred resource, which is supportive of the replenishing nature of the deposit where resource blocks are mined more than once a year. Higher mined tonnes in 2019, in comparison to the Resource Tonnes in the December 2018 Resource statement, were partially offset by the lower THM grade achieved in 2019 (11.15%), in comparison to the inferred resource grade (14.16%) reported in the December 2018 Resource Statement.

The following table summarises Tormin's unit costs and revenues for the year to 31 December 2019:

| Summary of Unit Costs & Revenues                                                    | Full Year to 31 December 2019 | Full Year to 31 December 2018 |
|-------------------------------------------------------------------------------------|-------------------------------|-------------------------------|
| Unit production cash costs per tonne of net final concentrate produced (\$/dmt)     | <b>84.40</b>                  | 57.68                         |
| Unit cost of goods sold per tonne of final concentrate sold (\$/wmt) <sup>(1)</sup> | <b>89.27</b>                  | 110.08                        |
| Unit revenue per tonne of final concentrate sold (\$/wmt)                           | <b>132.13</b>                 | 156.95                        |
| Revenue to Cost of Goods Sold Ratio                                                 | <b>1.48</b>                   | 1.43                          |

(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.

Unit production cash costs were impacted by the change in mined tonnes and grades, with the current year's US\$84.40/t for 238,933 final concentrate tonnes produced higher than the prior period's US\$57.68/t for 403,831 final concentrate tonnes produced. Production cash costs were 14% lower than in the prior period, but due to the lower net production of concentrate, as a function of the lower THM ore grade, unit costs were higher. Lower production cash costs in the current year reflect lower maintenance, equipment, labour and diesel costs. Maintenance and equipment hire costs were lower with the introduction of a new Articulated Dump Truck ("ADT") fleet and capital substitution of hired equipment. Labour and diesel cost savings reflect switching from a 24/7 operation to a new mining and processing operations schedule implemented from June 2019, incorporating an effective average 5.5 days per week working roster.

The total unit cost of goods sold of US\$89.27/t for the year for 440,210 final concentrate tonnes sold improved on the prior year's US\$110.08/t for 337,999 final concentrate tonnes sold. The improved performance is driven by increased relative volumes of bulk shipment products.

## **Directors' report (continued)**

### **REVIEW OF OPERATIONS (continued)**

#### **Tormin Mineral Sands Operation (continued)**

##### **Tormin Operational and Financial Performance (continued)**

Unit revenue per tonne of final concentrate sold for the year reflects the reduction in the proportion of zircon and rutile sales during the current year, partially offset by improved ilmenite pricing and sales.

Improved revenue to cost of goods sold ratio for the year in comparison to the prior period reflects lower unit costs in 2019, partially offset by lower unit revenue.

##### **Safety, Environment and Community**

The ongoing commitment to developing a safe working environment and culture continues. Encouragingly, this financial year saw the three month rolling Total Recordable Injury Frequency Rate start and finish the year at nil. Significantly, since the commencement of operations in late 2013, the Company has incurred only one Lost Time Injury, in April 2017. The Company achieved a further milestone during the year by working over 1.3 million man hours since this LTI incident. In excess of 3.1 million man hours have been worked at the Tormin site since its commencement.

The Company continues to implement its Social Labor Plan ("SLP") programs. During the year, in excess of ZAR8.25 million was committed to these programs. Initiatives within the local Tormin community and workplace included bursaries, scholarships, traineeships, internships, apprenticeships and adult basic education programs. The Company's learnership programs have seen participants advance their careers through education in engineering and business management courses. Bursaries support Tormin staff and community participants in furthering their education with courses such as, but not limited to, IT engineering, mechanical engineering, safety management, business management, law, mathematics and community development. Tormin currently has interns at the mine site integrated with geology, laboratory, finance, survey and environmental departments, providing on-the-ground experience and training for the community.

The Company also supports community-based enterprise and infrastructure support development, sponsoring of full-time teachers at local schools, distribution of food parcels with non-perishable foodstuffs delivered to elderly persons across the eight wards of the Matzikama municipal region and sponsorships in the form of attire, equipment and transport to local sporting clubs.

The Company completed an internal and external refurbishment and fit-out of the Nuwerus High School Hostels. The fit-out includes roof repairs, external doors and windows replacement, new flooring, kitchen and plumbing repairs and new bedroom cupboards. The hostels will accommodate 60 more learners from neighbouring settlements. The total value committed to this project was ZAR2.1 million.

The year ended successfully with the reported attendance of 224 high school learners participating in the Company-sponsored Maths & Science Spring School during October and November. In addition to this, the Company collaborated with the Matzikama Local Municipality on phase one of the Doornbay Slipway Project, targeting the challenge of poverty in the small fishing town of Doornbay.

##### **Permitting**

Positive outcomes were advanced and achieved during the year in relation to the Company's ongoing permitting applications for renewal of mining, expanded mining and prospecting rights. MRC's mining rights (10107MR and 10108MR) were renewed at the Tormin Mineral Sands Operation to allow the continuation of its existing mining operations for an additional 10 years. The renewal of existing Tormin mining rights is a significant milestone that gives the Company security of tenure and is the cornerstone of the Company's expanded mining right strategy which, in conjunction with the granted Section 102 Expanded Mining Right Environmental Authorisation (currently subject to appeal), enables MRC to increase production and pursue the goal of sustaining long-term mining operations and downstream processing at Tormin. This will enable MRC to continue to deliver economic benefits to our South African partners, the local community and shareholders.

The Company was granted Environmental Authorisation ("EA") for the S102 Expanded Mining Right in June 2019. As is often the case with applications of this nature, it was subsequently appealed. Due to the lower THM ore grades, the Company moved in June 2019 to a budgeted reduction in throughput across mining and processing operations. In conjunction with the budgeted reduction in mining, production through the PBC and GSP circuits were aligned to this new mining rate and the Company implemented voluntary severance packages to address excess labour capacity prior to implementing the new 5.5 day roster system.

## **Directors' report (continued)**

### **REVIEW OF OPERATIONS (continued)**

#### **Tormin Mineral Sands Operation (continued)**

##### **Permitting (continued)**

The requisite responses to the appealing authority, the Department of Environmental Affairs ("DEA"), were submitted immediately. Notwithstanding the appeal response has gone beyond the 90 day prescribed statutory period, the Company foresees no major impediment in any of the appeal grounds presented and remains hopeful that the appeal will be dealt with in the March quarter 2020.

The S102 Expanded Mining Right Application and associated mining programs incorporate the adjoining Northern Beaches and the Inland Strand deposits located on the Company owned freehold farmland.

Ongoing engineering and design work is being finalised in anticipation of final permitting approvals and commencement in the June quarter 2020. The Company has adopted a phased approach to the S102 Expanded Mining Rights project development.

This includes an initial Phase 1 increase in finished concentrate production to annualised circa 350,000 tonnes from the Northern Beach and Inland Strand mining areas by mobilising one of the existing PBCs to the Northern Beach mining areas whilst maintaining the operation of one PBC unit to process the Inland Strand material with the additional front-end crushing circuit being installed.

Phase 2 includes the construction of a 3.5mtpa primary beach concentration circuit with a new 500tph front-end feed and crushing and thickener circuit that will allow the processing of Inland Strand and Northern Beach deposits contemporaneously.

Phase 3 includes the construction of a 450,000 – 500,000 tonnes Magnetic Separation Plant ("MSP") to produce final ilmenite, garnet and zircon products.

Commencement of Phase 1, subject to permitting, should be in the June quarter 2020. The Phase 2 development is expected to commence construction in early 2021, allowing the completion and commissioning towards the end of 2021. The Phase 3 MSP construction is anticipated to be completed by 2022.

Prospecting right appeals were dismissed in the second half of 2019 by the DEA, relating to the prospecting rights covering Tormin Inland Strand (10262PR) ("Inland Strand") area on its Company-owned Geelwal Karoo farm and the Northern Beaches (10261PR) ("Northern Beaches").

The Northern Beaches incorporate ten beaches directly north and adjoining the current beach mining area at Tormin. The Northern Beaches prospecting area incorporates a semi-continuous tenement approximately 23km in length covering an area of 398 hectares of beach sands prospective for zircon, rutile, ilmenite, garnet, leucoxene and magnetite. Like the current beach mining area at Tormin, the Northern Beaches share similar placer style characteristics of deposition and replenishment.

The heavy minerals ("HM") in the beach sands are constantly replenished by the transport of new sediment from deeper waters, much of which has been derived from the erosion of mineralisation deposits accumulated in the elevated historic beach terraces onto the present beach. This replenishment occurs as a result of the naturally highly dynamic nature of sediment transport processes on beaches in this area. The beaches were previously explored and drilled by Trans Hex for diamonds and heavy mineral sands, and the occurrence of heavy mineral sands is well understood.

These marine strandlines are characterised by an extremely high concentration of HM in distinct layers. The THM content has been reported by Trans Hex in an internal non-JORC compliant resource report ("Tormin Feasibility Study Report dated June 1992") to be between 20% and 34% with a weighted average of 22% THM for 1.79Mt. Note that these grades have not been verified and are reported as Historical Foreign Estimates with Table 1 exemption under Listing Rule 5.10 "referring to historical or foreign estimate of mineralisation for areas adjacent to or near to the entity's mining tenements".

## Directors' report (continued)

### REVIEW OF OPERATIONS (continued)

#### Tormin Mineral Sands Operation (continued)

#### Permitting (continued)



Figure 1 - Northern Beaches area

The Inland Strand Incorporates an area approximately 12km in length covering 1741 hectares of coastal area immediately adjacent to the existing mining operations on the Company-owned farm Geelwal Karoo 262. The inland palaeo strandline has been identified by geophysics and supplemented by historical sampling (Figure 2). There is also substantial data reflecting the presence of multiple palaeo strandlines running parallel to the coastline and within the current Inland Strand prospecting tenure. This deposit has undergone historical exploration since the 1930s (Haughton 1931, Toerien & Groeneveld 1957, Abele 1989, Swart 1990, Barnes 1998), with exploration drilling work undertaken by Trans Hex between 1989 and 1991.

During 1999, Trans Hex conducted additional onshore drilling of strandlines and identified the inland raised beach deposits containing heavy minerals.



Figure 2 – Inland Strand

In January 2020, the Company was granted prospecting rights over the Northern Beaches and Inland Strand application areas (WC 30/5/1/1/2/10261PR and WC 30/5/1/1/2/10262PR) and anticipates commencing a resource definition program on both licences. These include the De Punt area (10240PR) approximately 12.4 kilometres in length and covering approximately 4,495 hectares. The Company also has under application additional significant prospecting areas to the North and South of the recently granted Tormin Inland Strand and Northern Beach prospecting rights.

## **Directors' report (continued)**

### **REVIEW OF OPERATIONS (continued)**

#### **Tormin Mineral Sands Operation (continued)**

##### **Permitting (continued)**

This area was the subject of a previously granted environmental authorisation which was appealed and, under the instruction of the DEA, required further technical studies to be conducted. These have now progressed to a Basic Assessment Review ("BAR") inclusive of an Estuarine Biodiversity Impact Assessment due for final submission in March quarter 2020. Additionally, the Klipvley Karoo Kop area (10307PR) which is approximately 16km in length and covering approximately 3,970 hectares is undergoing final BAR submission to be finalised and submitted in the March quarter 2020.

The Company cumulatively holds a continuous inland prospecting tenure granted, or under application, of approximately 41.4km in length and covering approximately 6,634 hectares. This is in addition to the current granted Tormin Mining Right area and the Northern Beach prospecting tenure.

The Company also received advice on the Appeal lodged with the DEA in June 2018 regarding its De Punt prospecting right ((WC)30/5/1/1/2/10240PR) and inland area covering 13km in length by up to 4km in width immediately south of the current Geelwal Farm owned by MSR, on which it conducts its processing operations. Advice was also received that the Klipvley Karoo Kop Prospecting permit (WC 30/5/1/1/2/10240) appeal was dismissed and as such, the Company has submitted another application in this area.

Whilst the Company has a number of prospecting right applications in various stages of assessment and appeal, these prospecting rights applications are not core to, and will not affect, the planned expansion covered under the S102 Application.

MRC considers the recent success in the granting of various mining and prospecting rights as a significant turning point in the due process of permitting applications and approvals, which historically have encountered administrative delays. The existing mining legislation was supplemented by the New Mining Charter 2018, which came into effect from September 2018. The new changes include a provision for employee and community participation and equity. Cognisant of this fact, the Company will embrace the new legislation and restructure its operating entity within South Africa accordingly.

## Directors' report (continued)

### REVIEW OF OPERATIONS (continued)

#### Tormin Mineral Sands Operation (continued)

#### Permitting (continued)

#### Tormin Resource and Prospecting Activities

The annual Tormin Mineral Resource review was completed in February 2020, with results as follows:

| Category                             | Resource<br>Million<br>Tonnes | Total Heavy<br>Mineral <sup>(1)</sup><br>(% in<br>Resource) | Ilmenite<br>(% in<br>Resource) | Zircon<br>(% in<br>Resource) | Rutile<br>(% in<br>Resource) | Garnet<br>(% in<br>Resource) |
|--------------------------------------|-------------------------------|-------------------------------------------------------------|--------------------------------|------------------------------|------------------------------|------------------------------|
| <b>Indicated Resource – Dec 2013</b> | <b>2.70</b>                   | <b>49.40%</b>                                               | <b>10.60%</b>                  | <b>3.40%</b>                 | <b>0.70%</b>                 | <b>25.30%</b>                |
| Tonnes Mined – FY2014                | 1.07                          | 53.83%                                                      | 17.26%                         | 4.76%                        | 0.65%                        | 31.16%                       |
| <b>Inferred Resource – Dec 2014</b>  | <b>2.70</b>                   | <b>38.14%</b>                                               | <b>10.05%</b>                  | <b>2.21%</b>                 | <b>0.46%</b>                 | <b>25.22%</b>                |
| Tonnes Mined – FY2015                | 1.62                          | 49.57%                                                      | 16.15%                         | 3.88%                        | 0.60%                        | 28.94%                       |
| <b>Inferred Resource – Dec 2015</b>  | <b>2.70</b>                   | <b>28.01%</b>                                               | <b>6.97%</b>                   | <b>1.56%</b>                 | <b>0.55%</b>                 | <b>18.54%</b>                |
| Tonnes Mined – FY2016                | 1.81                          | 45.97%                                                      | 12.97%                         | 2.78%                        | 0.61%                        | 29.21%                       |
| <b>Inferred Resource – Dec 2016</b>  | <b>1.80</b>                   | <b>28.08%</b>                                               | <b>6.15%</b>                   | <b>1.65%</b>                 | <b>0.53%</b>                 | <b>18.99%</b>                |
| Tonnes Mined – FY2017                | 2.05                          | 27.57%                                                      | 5.81%                          | 1.10%                        | 0.50%                        | 19.40%                       |
| <b>Inferred Resource – Dec 2017</b>  | <b>1.80 <sup>(2)</sup></b>    | <b>15.92%</b>                                               | <b>2.72%</b>                   | <b>0.79%</b>                 | <b>0.43%</b>                 | <b>11.45%</b>                |
| Tonnes Mined – FY2018                | 2.65                          | 17.35%                                                      | 3.14%                          | 0.55%                        | 0.38%                        | 12.55%                       |
| <b>Inferred Resource – Dec 2018</b>  | <b>2.27 <sup>(2)</sup></b>    | <b>14.16%</b>                                               | <b>2.30%</b>                   | <b>0.43%</b>                 | <b>0.19%</b>                 | <b>7.90%</b>                 |
| Tonnes Mined – FY2019                | 2.51                          | 11.21%                                                      | 1.81%                          | 0.42%                        | 0.21%                        | 7.53%                        |
| <b>Inferred Resource – Dec 2019</b>  | <b>2.40 <sup>(3)</sup></b>    | <b>8.68%</b>                                                | <b>1.03%</b>                   | <b>0.25%</b>                 | <b>0.10%</b>                 | <b>6.7%</b>                  |

(1) Includes other valuable heavy minerals e.g. leucoxene and magnetite

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

(3) 2% Heavy Mineral ("HM") cut-off grade used

Since commencement of operations at Tormin, the Company has mined in excess of 11.71 million tonnes. The tonnage mined is more than the original declared resource tonnage (2.70 million tonnes), which is indicative of the significant replenishment nature of the deposit where resource blocks are mined more than once per year.

Resource replenishment continues but at a rate slower than the mining rate. The Company is therefore unable to report a replenishment grade or quantity under the JORC Code (2012), however grade reconciliation and sample grading continues on a daily basis to correlate between the reported Mineral Resource and actual resource in terms of quantity, grade and replenishment.

## Directors' report (continued)

### REVIEW OF OPERATIONS (continued)

#### Tormin Mineral Sands Operation (continued)

##### Permitting (continued)

The Company is confident that the grant, access and subsequent development of the additional identified Inland Strand and Northern Beaches mining will occur in the first quarter 2020, which will allow the current active Tormin beach mining area to satisfactorily replenish in the future.

#### Skaland Graphite Operation

##### Skaland Graphite AS Acquisition

On 7 October 2019, the Company announced it had completed the purchase of Skaland Graphite AS for the total consideration of US\$8.7 million, comprising an initial cash consideration at settlement of US\$4.5 million and a further US\$4.2 million to be paid over five years.

Skaland operates the Trælen Graphite Mine and Skaland Processing Facility in Norway, which is the largest flake graphite producer in Europe and the highest grade flake graphite mine in the world, with mill feed grade averaging approximately 28% carbon. Skaland currently produces approximately 10,000 tonnes of graphite concentrate per annum and accounts for around 2% of global natural flake graphite production. The Skaland Graphite Operation is considered to have significant potential to expand the current production profile. As part of the conditions precedent to the purchase, the Company was granted operational and discharge permits that enable MRC to increase production from 11,000 to 16,000 tonnes per annum, subject to a maximum process plant tailings limit of 40,000 tonnes per annum.

MRC Graphite (Norway) Pty Ltd, a wholly owned subsidiary of the Company, acted as the sole contractual buyer of 100% of the issued capital of Skaland, noting that a 10% interest is to be transferred at fair value to the facilitator of the transaction, BSG Mining LLC, an unrelated party to the Company.

The acquisition of Skaland has fast-tracked MRC to be the largest graphite miner in Europe, improving the Company's understanding of traditional graphite markets. Skaland also offers excellent geostrategic positioning to capitalise on the fastest growing electric vehicle market globally.

The Company has already evaluated several opportunities to optimise the current process plant in its due diligence studies and thereafter that will improve the quality of the concentrate produced at Skaland. It will move to implement these initiatives and thereafter increase production. The Company is also progressing downstream processing, value adding initiatives and is intending to move to producing Battery Anode Material in the near term. This work leverages off the research and development conducted for the Company's Munglup project.

Norway is at the forefront of electric vehicle adoption and with world class infrastructure, provides an excellent environment to build a vertically integrated carbon supply business. The Company is in discussions with several parties on positioning Skaland as a provider of anode materials in Europe.

##### Skaland Operational and Financial Performance

The Company took control of Skaland Operations in October 2019. During the final quarter of 2019, concentrate production of 2,945t exceeded the quarterly budget of 2,732t by 7.7%. The plant treated 10,112t of ore, grading 28.4% C, relative to a 10,884t budget. Higher than budget run hours and recoveries offset lower throughput.

| Processing               | Q4 2019 Actuals | Year to Date 31-Dec-19 |
|--------------------------|-----------------|------------------------|
| Ore Processed            | 10,112          | 37,088                 |
| Throughput (tph)         | 6.9             | 7.8                    |
| Ore Grade (%C)           | 28.4            | 26.1                   |
| C Recovery (%)           | 93.3            | 91.7                   |
| Concentrate Grade (%)    | 90.7            | 91.2                   |
| Concentrate Produced (t) | 2,945           | 9,780                  |

## Directors' report (continued)

### REVIEW OF OPERATIONS (continued)

#### Skaland Graphite Operation (continued)

#### Skaland Operational and Financial Performance (continued)

Skaland produces a broad range of finished products including special grades to meet specific customer requirements. The coarser fractions are typically 95%-98%C, whilst the finest (powder) fraction is typically sub 90%. Previously identified optimisation initiatives, to improve the proportion of coarse flake in concentrate and improve the grade of the finer fractions in concentrate, are advancing on schedule.

| Product Category (wmt) | 31-Dec-19 Quarter |       | 31-Dec-19 Year to Date |       | 31-Dec-18 Year to Date |       |
|------------------------|-------------------|-------|------------------------|-------|------------------------|-------|
|                        | Sales             | PSD % | Sales                  | PSD % | Sales                  | PSD % |
| Flake/Medium           | 776               | 39%   | 2,467                  | 34%   | 3,087                  | 33%   |
| Fine-Medium/Powder     | 1,231             | 61%   | 4,808                  | 66%   | 6,226                  | 67%   |
| Total                  | 2,007             |       | 7,275                  |       | 9,313                  |       |

Sales revenue for the quarter was US\$1.2 million for a total of 2,007 tonnes sold. This reflects transitioning customer relationships post-acquisition, which are anticipated to significantly improve in the March quarter 2020 as a result of Company initiated marketing activities. Also, low sales volumes in December, which is traditionally a slow month in key European markets, adversely affected quarterly sales of 2,007t. Total sales of 7,275t for 2019 reflect the change in ownership and the associated transition from an exclusive marketing arrangement – this adversely affected sales mid-year, prior to the closure of the transaction.

Importantly, Skaland remained profitable even after lower sales revenue for the quarter, compared to the prior year. Costs remained in line with prior performance and management expectations. Management believes operational improvements will generate improving profitability for the Skaland operation in the near term.

| Summary of Unit Costs & Revenues                                                      | Dec-19 Quarter | Dec-19 Year to Date |
|---------------------------------------------------------------------------------------|----------------|---------------------|
| Unit production cash costs per tonne of net final concentrate produced (US\$/dmt)     | \$405.18       | \$417.41            |
| Unit cost of goods sold per tonne of final concentrate sold (US\$/wmt) <sup>(1)</sup> | \$356.50       | \$476.28            |
| Unit revenue per tonne of final concentrate sold (US\$/wmt)                           | \$582.48       | \$639.13            |

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.

Unit production cash costs for the December quarter are below YTD comparatives due to higher production in the current quarter in comparison to average YTD performance, partially offset by slightly higher production costs as Skaland transitioned to new ownership. Production in the December quarter 2019 is the highest quarterly production for the year.

Unit cost of goods sold for the December quarter 2019 was lower than the YTD comparative reflecting higher quarterly sales in the December quarter 2019, in comparison to the previous three quarters of 2019, and increasing inventory values.

Unit revenue per tonne of final concentrate sold for the quarter of US\$582.48 compares to YTD US\$639.13 with the weighted average price adjusted to enable the reduction of acquired stockpile inventory of Fine-Medium and Powder concentrates.

#### Skaland Safety, Environment and Community

MRC took control of the operation in October, and no lost-time injuries occurred in the operations subsequently. The Company conducted a safety audit of Skaland operations, which highlighted the workforce has a good knowledge base of safety requirements but safety systems need improvement to comply with Company standards. Improvement initiatives have subsequently commenced, including standardised safety performance reporting for the two operations.

Historically Skaland has maintained a solid safety performance, however, the Company believes that operating within an internally recognised structured safety management system can only further enhance the Company's ongoing OH&S compliance.

## **Directors' report (continued)**

### **REVIEW OF OPERATIONS (continued)**

#### **Skaland Graphite Operation (continued)**

##### **Skaland Safety, Environment and Community (continued)**

There was one minor environmental incident involving the release of a small amount of tailings with no environmental impact. Processing operations were briefly suspended. Options for online monitoring of the tailings system is under consideration as part of the incident investigation. In addition, the Company is evaluating options for further improving tailings treatment, with the associated testwork expected to commence in March 2020. This program has the potential to support a further increase in Skaland's production in the future.

##### **Permitting**

The two permits required by Skaland Graphite AS to operate the mine and processing plant are the Operating Permit and the Discharge Permit. New permits were required (and granted) prior to the close of the acquisition to ensure that the operation was fully compliant with regulations and had the flexibility to increase future production to 16,000tpa of concentrate, subject to a tailings disposal constraint of 40,000tpa.

The Company requested an extension to the delivery of an Operations Plan required under the Operating Permit for the Traelen mine from 1 February 2020 to 31 May 2020. The extension is required to conduct the detailed resource modelling, geotechnical and hydrology evaluation activities required to support an effective Operations Plan. The extension was granted subsequent to 31 December 2019.

The Discharge Permit requires the Company to implement additional environmental monitoring and control activities. Planning for these activities has commenced.

#### **Munglinup Graphite Project**

During the year, the Company appointed Mondium, a joint venture between Monadelphous and Lycopodium, to undertake complete Value Engineering ("VE") within the Definitive Feasibility Study ("DFS") phase, Front-End Engineering Design ("FEED") and fast-track to the full design and construct phase of the Munglinup Graphite Project. The DFS was completed and announced to the market. For more detailed information on the DFS outcomes we refer you to the ASX release "Robust DFS Allows MRC To Move To 90% Ownership Of Munglinup", released 8 January 2020.

Following the completion of the DFS, the Company intends to exercise its rights to increase its joint venture interest from 51% to 90% by:

- paying AU\$800,000 to Gold Terrace; and
- issuing Gold Terrace with 30 million fully paid ordinary shares in MRC.

## Directors' report (continued)

### REVIEW OF OPERATIONS (continued)

#### Munglinup Graphite Project (continued)

The key results of the DFS were:

- Post-tax - Net Present Value ("NPV") US\$111M (AU\$160M)
- Post-tax project - IRR 30%
- Capex - US\$61M (AU\$88M)
- Opex - US\$491/tonne (FOB) (AU\$720/tonne)
- Life of Mine average EBITDA - US\$31M pa (AU\$45M)
- Life of Mine net cash flow - US\$240M (AU\$352M)
- Payback period - 2.7 years
- Life of Mine - 14 years
- Life of Mine processing throughput - Yr 1-6 400ktpa — Yr 7-14 500ktpa
- Life of Mine average graphite concentrate production - 52ktpa
- Average concentrate grade - >95% TGC
- Ore Reserve - 4.24 million tonnes @ average grade 12.8% TGC

The DFS demonstrated robust economic outcomes of a concentrate only production scenario and confirmed the Company's view that Munglinup will become a crucial asset in its overall strategy to supply natural graphite into key high-demand battery anode markets. The DFS further enhances the Company's ambitions to build a global, vertically integrated carbon business based on two global strategic operating production centres in Tier 1 jurisdictions, Australia and Norway, producing sustainable natural graphite concentrate as a crucial raw material for the production of precursor and active anode materials.

The Munglinup Graphite Project was referred to the Department of Environment and Energy (Federal) ("DoEE") and the Environmental Protection Authority (State) ("EPA") in November 2018 for assessment. On 11 July 2019 the DoEE confirmed that the Federal assessment will be done under an accredited process by the EPA.

Additional studies required by the EPA were:

- Level 2 terrestrial fauna
- Level 2 SRE (short range endemic fauna) assessment
- Additional hydrology and hydrogeological assessment (including groundwater studies)
- Supplementary flora assessment
- Additional dieback assessment
- Ecological linkage assessment

A work program is underway with completion expected in June quarter 2020. The Federal-based DoEE and State-based EPA will then consider these studies in their assessment of the project.

The Company intends to implement a vertically integrated development strategy that will provide a broader range of higher value products, which diversifies the risks associated with supplying the traditional natural flake graphite market.

The Company will continue ongoing testwork and comprehensive market analysis as part of a determined integrated downstream value-adding strategy focused on the production of precursor and active anode materials for consumption in the growing lithium-ion battery sector. The Company will continue technical and economic study work, considering the production of purified, micronised, spheronised and coated Munglinup Concentrate to identify the optimal economic outcome from the deposit.

#### Downstream Graphite Projects

MRC's downstream development strategy includes an incremental approach to value-adding at Skaland and an integrated approach for the Munglinup project.

For Skaland, the process starts with increasing the quality of the concentrate produced at Skaland, specifically increasing the recovery of coarse flakes in the concentrate and the grade of the fines in the concentrate. Testwork for these activities commenced under the due diligence investigations and was successfully completed at the end of 2019. Vendor proposals for equipment supply and engineering design are expected to be completed in the March quarter 2020.

## Directors' report (continued)

### REVIEW OF OPERATIONS (continued)

#### Downstream Graphite Projects (continued)

The upgraded fines concentrate will be used for producing micronised and spheronised graphite at Skaland using low-cost hydro-electric power. Initial tests using vendor equipment have been completed and planning for additional testing is underway. It is necessary to select the correct equipment as the yields to the spheronised product are variable and impact on the characteristics of the spheronised graphite and the economics. The feed material for the testwork program is Skaland fines concentrate that is upgraded in a pilot plant in Australia.

Purification is the cornerstone of an effective value-adding strategy, producing high grade coarser flakes (>99%) as well as battery anode grade (>99.95%) products. Current practice is to purify graphite using hydrofluoric acid (HF) - an aggressive acid that is toxic to the environment if not effectively neutralised. HF purification is used in China where most natural graphite is purified. It will be difficult to obtain approvals for HF purification in other jurisdictions, thus a more environmentally sustainable purification process is required. Consequently, the Company formed a partnership with the CSIRO and Doral Fused Materials to submit an application for government funding for the development of a more sustainable process under the Commonwealth Government CRC-P Round 7 funding program. The Company was notified that the application was successful in July 2019.

The project has a total budget of \$2.61 million, with 31% contributed by the Commonwealth Government's CRC-P program as cash funding, together with significant cash and in-kind contributions by the partners. The program includes production of concentrate for use in the testwork program, evaluation of the performance of different reagents in removing impurities from the graphite, both individually and in series with other reagents, optimisation of reaction conditions and evaluation at PFS and DFS levels. It is a focused development program designed to deliver a commercial graphite purification process that does not use HF – examining a number of potential options.

The program commenced with the identification of impurities in Skaland concentrate to provide the baseline data for purification. Munmlinup concentrate having been assessed previously by CSIRO outside the CRC program. Initial screening tests have been completed as well as first stage evaluation of a two multi-stage processes. Optimisation of the two stage processes is underway. External to the work at CSIRO, the program is evaluating an alternate purification route. The results from these tests are expected in the March quarter 2020, with the goal of selecting a preferred purification process for further development.

Outside of its own purification process development, the Company has sent samples of unpurified spherical graphite (produced from upgraded Skaland concentrate) to potential customers for testing in their proprietary purification processes, with feedback expected in the March quarter 2020. This approach provides flexibility in fast-tracking purification.

For Munmlinup, the Company has been focusing on the purification process within the CRC-P program as well as generating additional concentrate for downstream testwork. The Company is pleased by the potential for a common purification process for Skaland and Munmlinup.

The Company has commenced electrochemical testing of coin-cells using purified Munmlinup graphite flake that has been micronised. This is the first step in evaluating performance as a battery anode material. Additional testwork using spherical graphite and coated spherical graphite from purified Munmlinup concentrate is underway with results expected early in 2020. A similar program will be developed for Skaland in the March quarter 2020 to assess the performance of concentrate purified by non-HF methods.

Leading up to the completion of the Skaland transaction, the Company engaged with numerous Norway-based industry and government groups to assist in the development and promotion of the Company's downstream strategy for Skaland concentrate. An early example of this engagement was the December announcement of an executed binding, non-exclusive MOU with FREYR. FREYR is a Norwegian-incorporated company developing a combined 2+32GWh lithium-ion battery facility and a 600 MW onshore wind park in Rana and Nesna municipalities in Norway. MRC and FREYR have agreed to evaluate the manufacture and supply of sustainably sourced natural anode material from Skaland graphite concentrate for use in FREYR's battery cells.

Where possible and permitted, the Companies have agreed to share information on the manufacture and production of energy storage systems to enable MRC to meet FREYR's future demand requirements. MRC will also provide review and advice to FREYR on the raw material sector of the battery value chain.

## Directors' report *(continued)*

### REVIEW OF OPERATIONS *(continued)*

#### Australian Exploration

##### Lithium/Tantalum Prospect: Paynes Find

On 10 January 2019, the Company announced it had acquired a mining lease and had recently been granted exploration licences over known lithium-tantalum rich pegmatites, being the Mt Edon Felsic pegmatite suite and Wydgee Greenstone belt pegmatites located near Paynes Find, Western Australia.

This acquisition at Paynes Find complements MRC's strategic focus on battery minerals, which includes development of the Munglinup Graphite Project located near Esperance and the recently announced share purchase agreement to acquire Norwegian graphite producer Skaland Graphite AS.

The Mt Edon pegmatite field hosts numerous lithium-cesium-tantalum pegmatites and is strategically located close to existing infrastructure making it an excellent exploration and mine development target. The mining lease area hosts historical lithium rich zones associated with the pegmatites, as well as historical mining for tantalum, beryl and microcline feldspar. Historical reported lithium grades of up to 2.2% Li<sub>2</sub>O<sub>5</sub> have been found on the granted mining lease.

The northern Wydgee tenement has had no lithium exploration work done on it, but is a known beryl bearing pegmatite that was previously exposed and mined for beryl.

The immediate exploration strategy for these Paynes Find tenements will be to identify albite-spodumene rich zones and verify the occurrence of anomalous lithium and tantalum within these targeted zones.

Site visits and field chip sampling of six selective pegmatites were undertaken on the Paynes Find, Mt Edon tenement during the year to determine the fractionated nature of the pegmatites for LCT minerals (Lithium-Cesium-Tantalum). Based on positive results (two out of ten rock chips anomalous for lithium and tantalum) in the second half of 2019, additional site visits and field chip sampling (ten new samples) of the pegmatites were undertaken on the Paynes Find, Mt Edon tenement. Two of the six main pegmatites (1.2km and 1.2km long along strike) were found to host fractionated pods of lithium, cesium and tantalum ("LCT") minerals. The visible lithium mineralisation consist of lepidolite zinnwaldite minerals and not spodumene. Four of the ten new rock chip samples were found to be anomalous for lithium, caesium and tantalum.

The Company received Programme Of Work approval by the Department of Mines, Industry Regulation and Safety ("DMIRS") for tantalite exploration pits in Paynes Find to evaluate elluvial and alluvial potential along the valleys and drainage to confirm the historical non-JORC resources of 70,600t@190ppm Ta<sub>2</sub>O<sub>5</sub> (Calderwood, 1979).

Exploration work is planned in the March quarter 2020.

The Yandeyarra Lithium prospecting applications were surrendered due to the inability to obtain access in a timely manner.

##### Copper/Gold Prospect : Doolgunna

Modelling and interpretation of the results from an 8,859m drill campaign during 2018 indicate a complex stockwork of gold lodes that are hosted within a broad, at least 320m wide, greenschist facies alteration system (the Revere Reef System) that is at least 5-6km long. Infill laboratory testing of drill samples during the first half of 2019 indicates that gold mineralised zones are continuous between drill holes and are not limited to just quartz reef lodes but are also within hydrothermally altered host rock e.g. siltstone and sandstone. The potential to develop the near surface ore bodies as a large open pitable resource is being investigated. Gold mineralisation has been intersected from surface to at least 130m below surface where RC drilling was abandoned due to high water inflows that compromised sampling integrity and recovery. Resource modelling results are very positive and encouraging, indicating a large, well developed mesothermal alteration zone in which the fluids during one of the episodic alteration events carried substantial gold bearing fluids. Width of the mineralised shear system is at least 320m wide along the Revere shear system and is still open at depth and width.

In addition to the Revere reef system two other well developed gold bearing shear zones have been identified, the Lucky Dog shear zone ~3km to the north and the King Reef system 1.6km to the south of the Revere Reef.

As the metalloid potential of these systems at depth (below zone of complete oxidisation) are currently unknown, a number of 300m deep diamond holes are planned to be drilled during June quarter 2020 to investigate the deeper copper-gold mineralisation potential of the systems.

## **Directors' report (continued)**

### **REVIEW OF OPERATIONS (continued)**

#### **Australian Exploration (continued)**

##### **Copper/Gold Prospect : Doolgunna (continued)**

The free gold mineralisation in the Revere System is extremely coarse and nuggety which is great for mine processing recoveries but can create low grade laboratory results during exploration due to the small drill sample size. A follow-up and larger bulk sampling campaign is therefore planned in and along the near surface mineralised gold quartz lodes intersected during drilling.

An application for two 45,000 tonne bulk sampling excess tonnage authorisations over tenements E51/1766 and P51/2787 were submitted to the Department of Mines, Industry Regulation and Safety on 18 June 2019. These applications are now on hold subject to Native Title Party consent.

##### **Vanadium Prospect: Harvey**

This Mining Lease (M70/888) has historical shallow prospecting and vacuum drilling work done on it that have produced magnetic concentrates with 1.53 to 1.65% V<sub>2</sub>O<sub>5</sub> grades and silica levels of less than 0.5%.

MRC has obtained new POW and Vegetation Clearance permits to allow deeper exploration drilling. Access negotiations with the Department of Biodiversity, Conservation and Attractions ("DBCA") are ongoing.

A new Dieback Survey over the drill lines has been completed and an updated dieback management plan and environmental management documents were prepared and submitted to the Department of Biodiversity, Conservation and Attractions on 11 October 2019.

Exploration drilling is expected to start in the second half of 2020.

#### **Xolobeni Mineral Sands Project**

The Xolobeni permitting process remains under a DMR mandated moratorium. The third visit to Xolobeni by the Mining Minister, Gwede Mantashe, occurred on 16 January 2019. The Minister inspected amongst other things the Kwanyana prospecting area of the proposed Xolobeni mining project. The Minister declared that an independent survey would be held to determine the future right of mining in the area.

The Company's Xolobeni Mineral Sands Project on the Eastern Cape of South Africa remains a world class mineral sands deposit with a JORC compliant resource of 346Mt @ 5% THM.

Whilst the Company has entered into an agreement to divest its interest to its project BEE partners, which is currently under suspension due to the moratorium, it continues to consider that the Xolobeni Mineral Sands Project has compelling socio-economic benefits for the area and can be developed in conjunction with the eco-tourism and agricultural initiatives that are being put forward by various stakeholders.

#### **Iran**

The Company is moving to divest its exploration interest in Iran during 2020.

### **Consolidated Results and Financial Position**

Earnings Before Interest, Tax, Depreciation and Amortisation for the Group ("EBITDA") were \$16.5 million (2018: \$14.7 million), a 12% increase on the prior year. The higher overall sales volumes and revenue (including Skaland), in-conjunction with lower corporate overheads translated into the higher reported EBITDA for the 2019 year, when compared to 2018 results.

Revenue for the year was \$61.8 million (2018: \$55.4 million), a 12% increase on the prior year. Higher sales revenue was due to the first year introduction of Skaland sales (US\$1.2 million), and additional Tormin revenue (US\$5.2 million). Higher Tormin revenue was due to a 103% (109,866 tonnes) increase in ilmenite concentrate volumes shipped during the current year, partially offset by a 41.87% (7,524 tonnes) decrease in zircon and rutile volumes shipped, lower garnet transport revenue due to 95,833 less garnet tonnes shipped and lower zircon and rutile pricing achieved in 2019.

## Directors' report (continued)

### REVIEW OF OPERATIONS (continued)

#### Consolidated Results and Financial Position (continued)

Gross profit margins were generally maintained at Tormin, with the Revenue to Cost of Goods Sold Ratio for the year of 1.48 (2018: 1.43), as the impacts of decreasing mine grades and production cash cost increases were mostly offset by improved processing plant performance and higher sales prices achieved for the Company's zircon, rutile and ilmenite concentrates.

Corporate administration and share incentive expenses for the year of \$5.5 million (2018: \$7.4 million) were incurred, with the decrease over the prior year a result of foreign exchange gain, corporate cost savings in lower travel costs and streamlining support services.

Net finance income for 2019 of \$0.2 million (2018: \$0.1 million net finance costs) were reported, reflecting interest income on cash held during 2019.

The profit before income tax expense ("NPBT") was \$11.9 million (2018: \$10.4 million), a 14% increase on the prior year, reflecting the improved sales performance at Tormin and lower administration costs in 2019.

The profit after expense ("NPAT") for 2019 was \$7.8 million (2018: \$8.8 million), an 11% decrease on the prior year. The main contributor towards the decreased NPAT when compared to 2018 results was the increase in the effective tax rate for the current year to 34% (2018: 15%), with the Group transitioning into a tax payable position in 2019, meaning past available capital losses that lowered the effective tax rate in the prior year have been fully utilised.

At 31 December 2019, the Company had \$8.1 million in cash (2018: \$12.4 million), with trade and other receivables of \$9.5 million (2018: \$6.0 million).

Net working capital as at 31 December 2019 was \$8.1 million (2018: \$13.4 million).

Borrowings as at 31 December 2019 were \$7.7 million (2018: \$5.1 million). The increased borrowings reflect additional debt of US\$4.2 million obtained in the acquisition of Skaland Graphite AS, partially offset by \$1.5 million in repayments against the facility previously provided to finance Tormin's garnet stripping plant and \$1.0 million in repayments for six Articulated Dump Trucks acquired in 2018 for the Tormin operation.

Net assets of the Group as at 31 December 2019 were \$46.0 million (2018: \$42.1 million). The increase in reported net assets reflects Group profitability in 2019, offset by dividend distributions to shareholders.

Strong net cash inflow from operating activities for the year of \$13.3 million (2018: \$14.5 million) continued to fund the Company's significant investment program and dividend distributions.

Net cash investments in acquisitions, exploration, feasibility studies, mine development, property, plant and equipment during 2019 totalled \$10.0 million (2018: \$9.4 million).

The Company's dividend payment strategy to provide cash returns to shareholders continued, with a further \$3.8 million (2018: \$3.8 million) distributed in dividends during 2019. The Board of the Company was pleased to be able to declare and pay during the year a 0.7 Australian cent per share final dividend in respect of the 2018 year, followed by an interim dividend for the half year ended 2019 of 0.6 Australian cent per ordinary share.

The Directors have deferred a decision on declaring a final dividend for the year ended 31 December 2019.

The current and expected future cash position and earnings of the Company is expected to continue to provide for the payment of future dividends as part of the Company's overall capital management strategy.

The Company continues to actively pursue business development opportunities in the industrial minerals, base metals and precious metals sectors, in accordance with the Company's strategy to diversify both in commodities and jurisdictions.

## **Directors' report (continued)**

### **REVIEW OF OPERATIONS (continued)**

#### **Outlook**

Tormin operations will continue to focus on optimising the mining and processing value chain to deliver results in line with 2019 figures. MRC's mining rights (10107MR and 10108MR) were renewed at the Tormin Mineral Sands Operation to allow the continuation of its existing mining operations for an additional 10 years. In addition, a concerted effort will continue to be made to secure the full granting of the Company's S102 Expanded Mining Right Application and its prospecting right applications.

Until such time that additional permitting is granted allowing an expansion and access to the Inland Strand and Northern Beach resources, the Company recognises it will need to continue to address 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.

Skaland's first full year of operations in 2020 will be focused on stabilising operations and improving safety standards, while investing in mining equipment substitution, additional development work to ensure continued ore supply and plant optimisation to improve grade and coarse/fine fraction product distribution.

After delivery of the Definitive Feasibility Study for the Munmlinup Graphite Project on 8 January 2020, management continue to expedite the requisite studies and regulatory approvals to fast-track this project to development.

The advancement of the permitting process in South Africa for the expansion of the Tormin mining operation, acquisition and consolidation of Skaland, combined with the progress of the tier 1 jurisdiction Munmlinup Graphite Project, sees the Company well positioned in 2020 to deliver on its stated expansion and diversification business development strategy.

#### **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, 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.

#### **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 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.

## Directors' report (continued)

### REVIEW OF OPERATIONS (continued)

#### 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.

#### Schedule of mining and prospecting tenements

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

| Country      | Location                  | Right/Tenement Number/Operating Licence | Type of Right/Tenement/Licence | Status                                                      | Registered Interest (Beneficial Interest) |
|--------------|---------------------------|-----------------------------------------|--------------------------------|-------------------------------------------------------------|-------------------------------------------|
| South Africa | Tormin                    | 162&163                                 | Expansion                      | Granted – subject to appeal                                 |                                           |
|              | Tormin                    | (WC)30/5/1/2/2/162 MR                   | Mining                         | Renewal Granted                                             | 100%                                      |
|              | Tormin                    | (WC)30/5/1/2/2/163 MR                   | Mining                         | Renewal Granted                                             | 100%                                      |
|              | Tormin                    | (WC)30/5/1/1/2/10036 PR                 | Prospecting                    | Granted – subject to renewal application                    | 100%                                      |
|              | Tormin                    | (WC)30/5/1/1/2/10199 PR                 | Prospecting                    | Granted                                                     | 100%                                      |
|              | Tormin                    | (WC)30/5/1/1/2/10240 PR                 | Prospecting                    | EA appeal upheld and decision to approve EA remitted to DMR | 100%                                      |
|              | Tormin                    | (WC)30/5/1/1/2/10261 PR                 | Prospecting                    | Granted                                                     | 100%                                      |
|              | Tormin                    | (WC) 30/5/1/1/2/10262 PR                | Prospecting                    | Granted                                                     | 100%                                      |
|              | Tormin                    | (WC)30/5/1/1/2/10307 PR                 | Prospecting                    | Under Application                                           | 100%                                      |
|              | Tormin                    | (WC)30/5/1/1/2/10308 PR                 | Prospecting                    | Under Application                                           | 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    | Doolgunna                 | E51/1766                                | Exploration                    | Granted                                                     | 0% (Option to earn-in to 90%)             |
|              | Doolgunna – Bone          | E51/1770                                | Exploration                    | Granted                                                     | 0% (Option to earn-in to 90%)             |
|              | Doolgunna – Lucky Dog     | P51/2787                                | Exploration                    | Granted                                                     | 0% (Option to earn-in to 90%)             |
|              | Doolgunna – Lucky Dog     | P51/2788                                | Exploration                    | Granted                                                     | 0% (Option to earn-in to 90%)             |
|              | Glen Florrie              | ELA08/2963                              | Exploration                    | Under Application                                           | 100% (90%)                                |
|              | Harvey Vanadium           | M70/888                                 | Mining                         | Granted                                                     | 0% (Option to earn-in up to 100%)         |

| Country   | Location                              | Right/Tenement<br>Number/Operating<br>Licence | Type of<br>Right/<br>Tenement/<br>Licence                            | Status      | Registered Interest<br>(Beneficial Interest) |
|-----------|---------------------------------------|-----------------------------------------------|----------------------------------------------------------------------|-------------|----------------------------------------------|
| Australia | Paynes Find                           | M59/714                                       | Mining                                                               | In Transfer | 0%<br>(Option to earn-in to 90%)             |
|           | Paynes Find –<br>Wydgee<br>Pegmatites | E59/2326                                      | Exploration                                                          | Granted     | 100%<br>(90%)                                |
|           | Munglinup                             | M74/245                                       | Mining                                                               | Granted     | 51%<br>(Option to acquire 90%)               |
|           | Munglinup                             | E74/505                                       | Exploration                                                          | Granted     | 51%<br>(Option to acquire 90%)               |
|           | Munglinup                             | E74/565                                       | Exploration                                                          | Granted     | 100%                                         |
| Norway    | Trelle                                | Gnr./bnr.6/1,6/2 and 7/1 in<br>Berg           | Expropriation<br>of Mining<br>Rights on<br>specified land<br>parcels | Granted     | 100%                                         |

## Directors' report (continued)

### Information on Directors

|                           |                                                           |               |
|---------------------------|-----------------------------------------------------------|---------------|
| <b>Mark Victor Caruso</b> | <b>Executive Chairman and<br/>Chief Executive Officer</b> | <b>Age 58</b> |
|---------------------------|-----------------------------------------------------------|---------------|

#### **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**

Connexion Telematics Ltd

#### **Former directorships in the last 3 years**

Perpetual Resources Limited

#### **Special responsibilities**

Chairman of the Board

Chief Executive Officer

#### **Interests in shares and options**

79,514,228 ordinary shares in the Company – indirect holding <sup>1</sup>

15,784 ordinary shares in the Company – direct holding

|                              |                               |               |
|------------------------------|-------------------------------|---------------|
| <b>Joseph Anthony Caruso</b> | <b>Non-Executive Director</b> | <b>Age 74</b> |
|------------------------------|-------------------------------|---------------|

#### **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**

78,007,485 ordinary shares in the Company <sup>1</sup>

<sup>1</sup> J A Caruso and M V Caruso are both directors of and have a relevant interest in Zurich Bay Holdings Pty Ltd, which holds 78,007,485 shares in the Company. Mr Mark Caruso also holds shares indirectly through Regional Management Pty Ltd and Property and Equity Nominees Pty Ltd.

## Directors' report (continued)

### Information on Directors (continued)

|                                            |                                                         |               |
|--------------------------------------------|---------------------------------------------------------|---------------|
| <b>Peter Patrick Torre CA, AGIA, MAICD</b> | <b>Non-Executive Director and<br/>Company Secretary</b> | <b>Age 48</b> |
|--------------------------------------------|---------------------------------------------------------|---------------|

#### **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**

Volt Power Group Limited  
VEEM Ltd  
Zenith Energy Ltd

#### **Former directorships in the last 3 years**

None

#### **Special responsibilities**

Company Secretary

#### **Interests in shares and performance rights**

1,625,000 ordinary shares in the Company

|                          |                                                                          |               |
|--------------------------|--------------------------------------------------------------------------|---------------|
| <b>David Lewis Baker</b> | <b>Independent Non-Executive Director<br/>(appointed 28 August 2019)</b> | <b>Age 63</b> |
|--------------------------|--------------------------------------------------------------------------|---------------|

#### **Experience and expertise**

Mr Baker is an investment banker and corporate lawyer with extensive experience in governance, leadership, asset financing, acquisitions and divestments. His governance and corporate leadership experience includes roles as the Chair, Non-Executive and Executive Director and Managing Director of two ASX listed companies and a major independent private school in Sydney. He has also held management roles in developing, financing, managing and operating resource projects in new technologies (magnesium, coal seam gas extraction) and emerging and remote mining jurisdictions (Philippines, Eritrea).

#### **Other current directorships**

None

#### **Former directorships in the last 3 years**

Strike Energy Limited

#### **Special responsibilities**

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

#### **Interests in shares and performance rights**

Nil ordinary shares in the Company

## Directors' report (continued)

### Information on Directors (continued)

|                        |                                                              |               |
|------------------------|--------------------------------------------------------------|---------------|
| <b>Debbie Ntombela</b> | <b>Non-Executive Director<br/>(appointed 28 August 2019)</b> | <b>Age 66</b> |
|------------------------|--------------------------------------------------------------|---------------|

#### **Experience and expertise**

Ms Ntombela is a lawyer in South Africa with an in-depth knowledge of the mining sector, specifically regarding regulatory compliance from previously working at and with the Department of Mineral Resources and the mining industry in South Africa. She specialises in applications for prospecting rights, mining rights, and mining permits, and all related mining and exploration documentation. She is currently a Partner in the law firm Shepstone & Wylie in South Africa.

#### **Other current directorships**

None

#### **Former directorships in the last 3 years**

None

#### **Special responsibilities**

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

#### **Interests in shares and performance rights**

Nil ordinary shares in the Company

|                              |                                                              |               |
|------------------------------|--------------------------------------------------------------|---------------|
| <b>Russell Gordon Tipper</b> | <b>Non-Executive Director<br/>(appointed 28 August 2019)</b> | <b>Age 66</b> |
|------------------------------|--------------------------------------------------------------|---------------|

#### **Experience and expertise**

Mr Tipper is a mining engineer with considerable senior executive, mining and project level experience having held a number of senior executive positions with mining companies over the years, including group treasurer for a large miner for four years. He has delivered feasibility studies and project proposals for major mining and infrastructure projects such as the Hope Downs Iron Ore Project and the Karara Magnetite Project. Mr Tipper has also been instrumental in debt restructuring and capital raisings, along with providing leadership in the revision of work practices at mining operations.

#### **Other current directorships**

None

#### **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**

Nil ordinary shares in the Company

## Directors' report (continued)

### Information on Directors (continued)

|                                          |                                                  |        |
|------------------------------------------|--------------------------------------------------|--------|
| Guy Redvers Walker BCA, CA, CFA, CMInstD | Non-Executive Director<br>(resigned 30 May 2019) | Age 50 |
|------------------------------------------|--------------------------------------------------|--------|

#### **Experience and expertise**

Mr Walker is a highly accomplished director and senior investment management executive with over 22 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

#### **Former directorships in the last 3 years**

None

#### **Special responsibilities**

Chairman of the Audit, Compliance and Risk Committee and member of the Remuneration and Nomination Committee (resigned 30 May 2019)

#### **Interests in shares and performance right at the time of resigning as a Director**

1,200,000 ordinary shares in the Company at the time of resigning as a Director

|                                                                       |                                                              |        |
|-----------------------------------------------------------------------|--------------------------------------------------------------|--------|
| Colin Ross Hastings BSc (Geology),<br>MSc (Economic Geology), MAusIMM | Independent Non-Executive Director<br>(resigned 30 May 2019) | Age 69 |
|-----------------------------------------------------------------------|--------------------------------------------------------------|--------|

#### **Experience and expertise**

Mr Ross Hastings was appointed as a non-executive Director in April 2015. He is a geologist with over 32 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**

None

#### **Former directorships in the last 3 years**

Perpetual Resources Limited

#### **Special responsibilities**

Chairman of the Remuneration and Nomination Committee and member of the Audit, Compliance and Risk Committee (resigned 30 May 2019)

#### **Interests in shares and performance rights at the time of resigning as a Director**

1,150,000 ordinary shares in the Company at the time of resigning as a Director

## Directors' report (continued)

### 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<br>1 January<br>2019 | Received as<br>remuneration | Increase as a<br>result of<br>performance<br>rights exercised | Purchased on<br>market | Balance as at<br>31 December<br>2019 |
|----------------------------|------------|------------------------------------|-----------------------------|---------------------------------------------------------------|------------------------|--------------------------------------|
| Mark Caruso                | • Indirect | 79,514,228                         | -                           | -                                                             | -                      | 79,514,228                           |
|                            | • Direct   | 15,784                             | -                           | -                                                             | -                      | 15,784                               |
| Joseph Caruso              |            | 78,007,485                         | -                           | -                                                             | -                      | 78,007,485                           |
| Peter Torre                |            | 1,625,000                          | -                           | -                                                             | -                      | 1,625,000                            |
| David Baker                |            | -                                  | -                           | -                                                             | -                      | -                                    |
| Debbie Ntombela            |            | -                                  | -                           | -                                                             | -                      | -                                    |
| Russell Tipper             |            | -                                  | -                           | -                                                             | -                      | -                                    |
| Guy Walker <sup>1</sup>    |            | 1,200,000                          | -                           | -                                                             | -                      | 1,200,000                            |
| Ross Hastings <sup>1</sup> |            | 1,150,000                          | -                           | -                                                             | -                      | 1,150,000                            |
| Adam Bick                  |            | -                                  | -                           | -                                                             | -                      | -                                    |
| Surinder Ghag              |            | -                                  | -                           | -                                                             | -                      | -                                    |
| Bahman Rashidi             |            | -                                  | -                           | -                                                             | -                      | -                                    |
| Fletcher Hancock           |            | -                                  | -                           | -                                                             | -                      | -                                    |

<sup>1</sup> Mr Walker and Mr Hastings resigned as directors on 30 May 2019. Their balance as at 31 December 2019 reflects shareholdings at resignation date.

### 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 2019, and the number of meetings attended by each Director were:

| Name                                                | Directors'<br>Meetings |    | Meetings of Committees        |   |                                |   |
|-----------------------------------------------------|------------------------|----|-------------------------------|---|--------------------------------|---|
|                                                     |                        |    | Audit, Compliance<br>and Risk |   | Remuneration<br>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                                  | 10                     | 10 | 1                             | 1 | 1                              | 1 |
| Joseph Anthony Caruso                               | 10                     | 10 | 1                             | 1 | 1                              | 1 |
| Peter Patrick Torre                                 | 10                     | 10 | 4                             | 4 | 1                              | 1 |
| David Lewis Baker                                   | 2                      | 2  | 1                             | 1 | 1                              | 1 |
| Debbie Ntombela                                     | 2                      | 2  | 1                             | 1 | 1                              | 1 |
| Russell Gordon Tipper                               | 2                      | 2  | 1                             | 1 | 1                              | 1 |
| Guy Redvers Walker                                  | 5                      | 5  | 2                             | 2 | 3                              | 3 |
| Colin Ross Hastings                                 | 5                      | 5  | 2                             | 2 | 3                              | 3 |

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.

## Directors' report (continued)

### 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"), Technical Services Manager ("TSM"), Exploration Manager ("EM") and Group Legal Counsel ("GLC"). Long-term incentives are provided to Directors and other key management personnel to incentivise them to deliver long-term shareholder returns.

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 2019, 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.

|                                             | 2019       | 2018       | 2017       | 2016       | 2015       |
|---------------------------------------------|------------|------------|------------|------------|------------|
| Profit /(loss) for the year after tax (USD) | 7,828,231  | 8,823,231  | 9,932,930  | 3,777,834  | 10,576,785 |
| Closing share price (AUD)                   | 28.0 cents | 17.0 cents | 13.0 cents | 13.0 cents | 10.0 cents |
| Dividends paid (AUD)                        | 5,474,790  | 5,431,140  | 6,884,012  | 4,049,416  | -          |

## **Directors' report (continued)**

### **Remuneration report (Audited) (continued)**

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

##### **Voting and comments made at the Company's 2019 Annual General Meeting**

The Company received more than 25% votes against the approval of the Remuneration Report, and as such recorded its second successive strike in accordance with the Corporations Act 2001. A Company is required to put to its shareholders a resolution proposing the calling of another meeting of shareholders to consider the appointment of directors of the company ("Spill Resolution") if, at consecutive annual general meetings, at least 25% of the votes cast on a remuneration report resolution are voted against adoption of the remuneration report and at the first of those annual general meetings a Spill Resolution was not put to vote.

A Spill Resolution was put to vote at the 30 May 2019 annual general meeting and (with Key Management Personnel and their Closely Related Parties excluded pursuant to the Corporations Act) more than 50% of votes cast were in favour of the Spill Resolution. Consequently, the Company convened a Spill Meeting on 28 August 2019.

The Vacating Directors were Joseph Caruso, Peter Torre, Colin Hastings and Guy Walker. Peter Torre and Joseph Caruso remained in office until the Spill Meeting, whereas Colin Hastings and Guy Walker no longer remained in office due to retirement and non-election, respectively.

The Vacating Directors who remained in office ceased to hold office immediately before the end of the Spill Meeting but stood for re-election at the Spill Meeting.

The business of the Spill Meeting was to put to vote resolutions to appoint persons to offices vacated by the Vacating Directors.

The Directors note that the Government's stated intention of the "two strikes rule" was to empower shareholders to constrain remuneration arrangements that were clearly excessive. The Directors do not consider this to be the case for the Company.

At the General Meeting held 28 August 2019, Mr Joseph Caruso and Mr Peter Torre were re-elected as Directors of the Company and Ms Debbie Ntombela, Mr Russell Tipper and Mr David Baker were also elected to the Board.

#### **B. Details of Remuneration**

The key management personnel of the Group are:

- the Directors of the Company;
- Mr Tony Sheard, the Chief Financial Officer ("CFO") (resigned 5 June 2019);
- Mr Adam Bick, the Chief Financial Officer ("CFO") (appointed 5 June 2019);
- Mr Surinder Ghag, the Technical Services Manager ("TSM");
- Mr Bahman Rashidi, the Exploration Manager ("EM"); and
- Mr Fletcher Hancock, the Group Legal Counsel ("GLC").

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, to the previous CFO in the 2017 financial year and to the TSM and EM in the 2018 financial year. The current CFO received performance rights in the 2018 financial year in his previous role as Group Financial Controller with the Company. 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 <sup>1</sup>                           | 2019        | 579,710           | 677,000          | 7,929                               | 20,290                         | -                                                         | 1,284,929        | 52.7                             | -                                                        |
|                                                    | 2018        | 579,710           | 662,500          | 68,385                              | 20,290                         | -                                                         | 1,330,885        | 49.8                             | -                                                        |
| Joseph Caruso                                      | 2019        | 63,927            | -                | -                                   | 6,073                          | -                                                         | 70,000           | -                                | -                                                        |
|                                                    | 2018        | 63,927            | -                | -                                   | 6,073                          | 52,705                                                    | 122,705          | -                                | 43.0                                                     |
| Peter Torre                                        | 2019        | 150,000           | -                | -                                   | -                              | -                                                         | 150,000          | -                                | -                                                        |
|                                                    | 2018        | 150,000           | -                | -                                   | -                              | 52,705                                                    | 202,705          | -                                | 26.0                                                     |
| David Baker                                        | 2019        | 22,917            | -                | -                                   | -                              | -                                                         | 22,917           | -                                | -                                                        |
| Debbie Ntombela                                    | 2019        | 22,500            | -                | -                                   | -                              | -                                                         | 22,500           | -                                | -                                                        |
| Russell Tipper                                     | 2019        | 20,928            | -                | -                                   | 1,989                          | -                                                         | 22,917           | -                                | -                                                        |
| Guy Walker                                         | 2019        | 33,333            | -                | -                                   | -                              | -                                                         | 33,333           | -                                | -                                                        |
|                                                    | 2018        | 80,000            | -                | -                                   | -                              | 52,705                                                    | 132,705          | -                                | 39.7                                                     |
| Ross Hastings                                      | 2019        | 14,840            | -                | -                                   | 1,410                          | -                                                         | 16,250           | -                                | -                                                        |
|                                                    | 2018        | 84,036            | -                | -                                   | 6,941                          | 52,705                                                    | 143,682          | -                                | 36.7                                                     |
| <b>Total Director Remuneration</b>                 | <b>2019</b> | <b>908,155</b>    | <b>677,000</b>   | <b>7,929</b>                        | <b>29,762</b>                  | <b>-</b>                                                  | <b>1,622,846</b> | <b>41.7</b>                      | <b>-</b>                                                 |
|                                                    | <b>2018</b> | <b>957,673</b>    | <b>662,500</b>   | <b>68,385</b>                       | <b>33,304</b>                  | <b>210,820</b>                                            | <b>1,932,682</b> | <b>34.3</b>                      | <b>10.9</b>                                              |
| <i>Other Key Management Personnel</i>              |             |                   |                  |                                     |                                |                                                           |                  |                                  |                                                          |
| Tony Sheard (resigned 5 June 2019)                 | 2019        | 105,628           | -                | -                                   | 13,840                         | -                                                         | 119,468          | -                                | -                                                        |
|                                                    | 2018        | 248,762           | 51,313           | 8,122                               | 26,238                         | 202,073                                                   | 536,508          | 9.6                              | 37.7                                                     |
| Adam Bick (appointed 5 June 2019)                  | 2019        | 126,898           | 49,771           | 11,715                              | 12,055                         | 45,266                                                    | 245,705          | 20.3                             | 18.4                                                     |
| Surinder Ghag                                      | 2019        | 237,758           | 59,750           | 336                                 | 22,125                         | 83,914                                                    | 403,883          | 14.8                             | 20.8                                                     |
|                                                    | 2018        | 221,407           | 55,574           | 7,490                               | 20,572                         | 26,142                                                    | 331,185          | 16.8                             | 7.9                                                      |
| Bahman Rashidi                                     | 2019        | 169,798           | -                | 4,488                               | 16,128                         | 90,930                                                    | 281,344          | -                                | 32.3                                                     |
|                                                    | 2018        | 164,384           | -                | 9,750                               | 15,616                         | 159,330                                                   | 349,080          | -                                | 45.6                                                     |
| Fletcher Hancock                                   | 2019        | 203,196           | 33,000           | -                                   | 19,304                         | 61,582                                                    | 317,082          | 10.4                             | 19.4                                                     |
|                                                    | 2018        | 121,471           | 29,142           | -                                   | 11,540                         | -                                                         | 162,153          | 18.0                             | -                                                        |
| <b>Total Key Management Personnel Remuneration</b> | <b>2019</b> | <b>1,751,433</b>  | <b>819,521</b>   | <b>24,468</b>                       | <b>113,214</b>                 | <b>281,692</b>                                            | <b>2,990,328</b> | <b>27.4</b>                      | <b>9.4</b>                                               |
|                                                    | <b>2018</b> | <b>1,713,697</b>  | <b>798,529</b>   | <b>93,747</b>                       | <b>107,270</b>                 | <b>598,365</b>                                            | <b>3,311,608</b> | <b>24.1</b>                      | <b>18.1</b>                                              |

Mr Caruso received non-monetary benefits in addition to the remuneration above for personal insurance of A\$74,747 (2018: A\$72,962). Mr Caruso, as a working director, is not personally insured under the Group's insurance policies for accident, injury or death. The Company in 2018 also purchased Mr Caruso a A\$116,544 Toyota Landcruiser motor vehicle for business and personal use. This motor vehicle has been financed by the Company.

## 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, including Mining Rights for the Northern Beaches and Geelwal Karoo Inland Mining Area;
3. Conclude Skaland acquisition;
4. Achieving Budget Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") taking into account uncontrollable variables at the discretion of the Board; and
5. Munglinup project progress against agreed project plan and deliverables, including delivery of a Definitive Feasibility Study.

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; to secure further mining and prospecting tenure for the Company's Tormin operations 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 98% of the full bonus of 25% of the Base Remuneration.

In 2019, pursuant to the provisions of the Executive Chairman's executive service agreement, the Board used its discretion to award the Executive Chairman an additional one-off special bonus of A\$530,000 (2018 A\$550,000) in recognition of his performance in generating the uplift in the Company's share price during 2019, resulting in the increased market capitalisation and individual shareholder value created.

The CFO, Adam Bick, was entitled to an annual bonus of 25% of the Base Remuneration, measured against the following criteria:

1. Performance against scope of services set out in the employment contract at the sole discretion of the Executive Chairman - 70%;
2. Board Reporting within set timing each month -10%; and
3. Achieving EBITDA against budget taking into account uncontrollable variables at the discretion of the Board -20%.

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 93% 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:

1. Tormin project progress against agreed project plan and deliverables -10%;
2. Tormin HMC expansion progress against agreed project plan and deliverables -25%;
3. Munglinup project progress against agreed project plan and deliverables -10%;
4. Skaland acquisition and project progress against agreed project plan and deliverables -20%
5. Graphite downstream project progress against agreed project plan and deliverables -15%
6. Achieving EBITDA against budget taking into account uncontrollable variables at the discretion of the Executive Chairman -20%.

## Directors' report (continued)

### Remuneration report (Audited) (continued)

#### B. Details of Remuneration (continued)

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 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 92% of the full bonus of 25% of the Base Remuneration for the year.

The Group Legal Counsel, Fletcher Hancock, was entitled to an annual bonus of 25% of the Base Remuneration, measured against the following criteria:

1. Legal project progress against agreed project plan and deliverables -80%;
2. Achieving EBITDA against budget taking into account uncontrollable variables at the discretion of the Executive Chairman -20%.

Future bonus of the Group Legal Counsel will be at the sole discretion of the Board.

The measurable objectives were chosen to ensure the Group Legal Counsel was incentivised to ensure legal and statutory compliance and EBITDA, and to ensure the Group Legal Counsel performed each of the tasks outlined in his employment contract which are typical of that for a Group Legal Counsel position.

The Executive Chairman assessed the performance of the Group Legal Counsel against the above measurable objectives and awarded 60% 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 |      |
|---------------------------------------|--------------------|------|---------------|------|---------------|------|
|                                       | 2019               | 2018 | 2019          | 2018 | 2019          | 2018 |
| <b>Directors</b>                      |                    |      |               |      |               |      |
| <i>Executive Chairman</i>             |                    |      |               |      |               |      |
| Mark Caruso                           | 47%                | 50%  | 53%           | 50%  | 0%            | 0%   |
| <i>Non-Executive Directors</i>        |                    |      |               |      |               |      |
| Joseph Caruso                         | 100%               | 57%  | 0%            | 0%   | 0%            | 43%  |
| Peter Torre                           | 100%               | 74%  | 0%            | 0%   | 0%            | 26%  |
| David Baker                           | 100%               | -    | 0%            | -    | 0%            | -    |
| Debbie Ntombela                       | 100%               | -    | 0%            | -    | 0%            | -    |
| Russell Tipper                        | 100%               | -    | 0%            | -    | 0%            | -    |
| Guy Walker                            | 100%               | 60%  | 0%            | 0%   | 0%            | 40%  |
| Ross Hastings                         | 100%               | 63%  | 0%            | 0%   | 0%            | 37%  |
| <b>Other Key Management Personnel</b> |                    |      |               |      |               |      |
| Tony Sheard (resigned 5 June 2019)    | 100%               | 52%  | 0%            | 10%  | 0%            | 38%  |
| Adam Bick (appointed 5 June 2019)     | 62%                | -    | 20%           | -    | 18%           | -    |
| Surinder Ghag                         | 64%                | 75%  | 15%           | 17%  | 21%           | 8%   |
| Bahman Rashidi                        | 68%                | 54%  | 0%            | 0%   | 32%           | 46%  |
| Fletcher Hancock                      | 71%                | 82%  | 10%           | 18%  | 19%           | 0%   |

## Directors' report (continued)

### Remuneration report (Audited) (continued)

#### 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 |

##### Adam Bick

|                            |                                                                                              |
|----------------------------|----------------------------------------------------------------------------------------------|
| Commencement date          | 5 June 2019                                                                                  |
| Term                       | No fixed term                                                                                |
| Total Remuneration package | A\$250,000 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                           |

##### Surinder Ghag

|                            |                                                                                              |
|----------------------------|----------------------------------------------------------------------------------------------|
| Commencement date          | 4 September 2017                                                                             |
| Term                       | No fixed term                                                                                |
| Total Remuneration package | A\$300,000 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\$200,000 per annum (inclusive of statutory superannuation)       |
| Termination benefits       | Nil unless constructive redundancy in which case 12 months' salary |

##### Fletcher Hancock

|                            |                                                                    |
|----------------------------|--------------------------------------------------------------------|
| Commencement date          | 11 May 2018                                                        |
| Term                       | No fixed term                                                      |
| Total Remuneration package | A\$230,000 per annum (inclusive of statutory superannuation)       |
| Termination benefits       | Nil unless constructive redundancy in which case 12 months' salary |

There are no other service agreements.

Mineral Commodities reviewed salary benchmarking during 2019 of its key management personnel and other employees, provided by Cornerstone HR, to ensure that salaries remain competitive and the Company is able to both attract and retain talent.

#### D. Share Based Compensation

##### Employee Options

No options were granted as remuneration during the year ended 31 December 2019 or in the prior year. No options vested during the year or in the prior year.

##### 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.

## Directors' report (continued)

### Remuneration report (Audited) (continued)

#### D. Share Based Compensation (continued)

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 |
|------------------|--------------|--------------|-----------------------|--------------------------|
| Fletcher Hancock | 13 June 2019 | 13 June 2022 | 26 cents              | 1,000,000                |

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

Each performance right issued to Mr Hancock was valued at A\$0.13, with 500,000 rights vesting on both 14 May 2020 and 14 May 2021 once the share price exceeds the Barrier Price for thirty 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<br>1 January<br>2019 | Received as<br>remuneration | Performance<br>rights vested<br>and exercised | Balance as at<br>31 December<br>2019 | Performance<br>rights<br>vested and not<br>exercised |
|---------------------------------------|------------------------------------|-----------------------------|-----------------------------------------------|--------------------------------------|------------------------------------------------------|
| Joseph Caruso                         | -                                  | -                           | -                                             | -                                    | -                                                    |
| Peter Torre                           | -                                  | -                           | -                                             | -                                    | -                                                    |
| Guy Walker                            | -                                  | -                           | -                                             | -                                    | -                                                    |
| Ross Hastings                         | -                                  | -                           | -                                             | -                                    | -                                                    |
| Tony Sheard (resigned<br>5 June 2019) | -                                  | -                           | -                                             | -                                    | -                                                    |
| Adam Bick (appointed<br>5 June 2019)  | 1,000,000                          | -                           | -                                             | 1,000,000                            | 500,000                                              |
| Bahman Rashidi                        | 1,000,000                          | -                           | -                                             | 1,000,000                            | 666,666                                              |
| Surinder Ghag                         | 1,000,000                          | -                           | -                                             | 1,000,000                            | 500,000                                              |
| Fletcher Hancock                      | -                                  | 1,000,000                   | -                                             | 1,000,000                            | -                                                    |
| <b>Total</b>                          | <b>3,000,000</b>                   | <b>1,000,000</b>            | <b>-</b>                                      | <b>4,000,000</b>                     | <b>1,666,666</b>                                     |

#### 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 followings services to the Company during 2019:

- Provision of executive services.

The amount paid by the Company to MSCS for the year ended 31 December 2019 was \$208,657 (2018: \$224,340), which reflects part of the remuneration paid to the Executive Chairman. 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 2019 was \$143,851 (2018: \$148,625). This is considered to be an arm's length commercial rent. There is a formal sub lease in place.

- Provision of technical staff.

The amount paid by the Company to MSCS for the year ended 31 December 2019 was \$280,715 (2018: \$236,880). 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.

## **Directors' report (continued)**

### **Remuneration report (Audited) (continued)**

#### **D. Other transactions with key management personnel (continued)**

- Others

The amount paid by the Company to MSCS for the year ended 31 December 2019 was \$131,340 (2018: \$337,253). The amounts payable have been in respect of telecommunication charges and miscellaneous payments made by MSCS on behalf of the Company. The amount paid in 2018 included the acquisition of a new vehicle for the Executive Chairman. The amounts have been reimbursed on an arms-length basis at normal commercial rates.

As at 31 December 2019, amount payable to MSCS is \$53,463.

Ross Hastings, one of the Directors, has provided consulting services to one of the Company's projects during the year ended 31 December 2018. The amount paid by the Company to Ross Hastings for the year ended 31 December 2019 was \$nil (2018: \$8,209). 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 2019. The amount paid by the Company to Hastings Bell Pty Ltd for the year ended 31 December 2019 was \$157,352 (2018: \$305,734). This is considered to be an arm's length commercial consultancy contract at normal commercial rates.

Shepstone and Wylie, a company associated with Debbie Ntombela, one of the Directors from 28 August 2019, has provided legal services to the Company during 2019. This amount paid by the Company to Shepstone and Wylie for the year ended 31 Dec 2019 was \$11,292.

### ***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.

## Directors' report (continued)

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 2019<br>\$ | 31 Dec 2018<br>\$ |
|----------------------------------------------------------------------------|-------------------|-------------------|
| <b>Non-audit services</b>                                                  |                   |                   |
| <i>Taxation, advisory and company secretarial (South African entities)</i> |                   |                   |
| BDO advisory                                                               | 5,564             | -                 |
| BDO Tax (WA) Pty Ltd                                                       | -                 | 16,116            |
| BDO Johannesburg South Africa                                              | 1,034             | 8,830             |
|                                                                            | <b>6,598</b>      | <b>24,946</b>     |

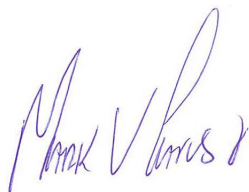
## Auditor

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

## 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 37 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 2020

DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF MINERAL COMMODITIES LTD

As lead auditor of Mineral Commodities Ltd for the year ended 31 December 2019, 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.



Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth, 28 February 2020

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### Financial statements

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# Consolidated income statement

For the year ended 31 December 2019

|                                                                                                                             | Notes    | 31 Dec 2019<br>\$ | 31 Dec 2018<br>\$ |
|-----------------------------------------------------------------------------------------------------------------------------|----------|-------------------|-------------------|
| <b>Revenue from continuing operations</b>                                                                                   |          |                   |                   |
| Sale of product                                                                                                             | 2.2      | 59,514,773        | 53,523,922        |
| Other revenue                                                                                                               | 2.2      | 2,268,797         | 1,875,241         |
|                                                                                                                             |          | <b>61,783,570</b> | 55,399,163        |
| <b>Expenses</b>                                                                                                             |          |                   |                   |
| Mining and processing costs                                                                                                 | 2.3(i)   | (44,593,585)      | (37,501,716)      |
| Other expenses from ordinary activities                                                                                     |          |                   |                   |
| Administration expenditure                                                                                                  | 2.3(ii)  | (5,219,587)       | (6,913,831)       |
| Share based payment expenses                                                                                                | 7.2      | (261,810)         | (441,253)         |
| Financial income/(expenses)                                                                                                 | 5.2      | 158,755           | (102,756)         |
| <b>Profit before income tax</b>                                                                                             |          | <b>11,867,343</b> | 10,439,607        |
| Income tax expense                                                                                                          | 2.4(i)   | (4,039,112)       | (1,616,376)       |
| <b>Profit after income tax</b>                                                                                              |          | <b>7,828,231</b>  | 8,823,231         |
| Profit is attributable to:                                                                                                  |          |                   |                   |
| Owners of Mineral Commodities Ltd                                                                                           |          | 7,828,231         | 8,823,231         |
| Non-controlling interest                                                                                                    |          | -                 | -                 |
|                                                                                                                             |          | <b>7,828,231</b>  | 8,823,231         |
|                                                                                                                             |          | <b>Cents</b>      | Cents             |
| <b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:</b> |          |                   |                   |
| Basic earnings per share                                                                                                    | 2.5 (i)  | 1.86              | 2.10              |
| Diluted earnings per share                                                                                                  | 2.5 (ii) | 1.85              | 2.08              |

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 2019

|                                                             |        | 31 Dec 2019<br>\$ | 31 Dec 2018<br>\$ |
|-------------------------------------------------------------|--------|-------------------|-------------------|
| <b>Profit for the year</b>                                  |        | <b>7,828,231</b>  | 8,823,231         |
| <b>Other comprehensive income</b>                           |        |                   |                   |
| Exchange differences on translation of foreign operations   | 5.3(b) | (313,397)         | (8,063,464)       |
| <b>Other comprehensive loss for the year, net of tax</b>    |        | <b>(313,397)</b>  | (8,063,464)       |
| <b>Total comprehensive income for the year</b>              |        | <b>7,514,834</b>  | 759,767           |
| Total comprehensive income for the year is attributable to: |        |                   |                   |
| Owners of Mineral Commodities Ltd                           |        | 7,514,834         | 759,767           |
| Non-controlling interest                                    |        | -                 | -                 |
|                                                             |        | <b>7,514,834</b>  | 759,767           |

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

**Consolidated balance sheet**  
as at 31 December 2019

|                                          | Notes      | 31 Dec 2019<br>\$ | 31 Dec 2018<br>\$ |
|------------------------------------------|------------|-------------------|-------------------|
| <b>ASSETS</b>                            |            |                   |                   |
| <b>Current assets</b>                    |            |                   |                   |
| Cash and cash equivalents                | 4.1        | 8,092,614         | 12,410,510        |
| Trade and other receivables              | 4.2        | 8,027,372         | 5,166,481         |
| Inventories                              | 4.3        | 21,943,331        | 25,756,725        |
| Other investments, including derivatives |            | 777,253           | 753,796           |
| <b>Total Current Assets</b>              |            | <b>38,840,570</b> | <b>44,087,512</b> |
| <b>Non-current assets</b>                |            |                   |                   |
| Trade and other receivables              | 4.2        | 1,513,268         | 856,715           |
| Exploration expenditure                  | 3.1        | 18,271,033        | 15,369,068        |
| Mine development expenditure             | 3.2        | 10,412,610        | 5,240,911         |
| Property, plant and equipment            | 3.3        | 17,830,604        | 15,320,565        |
| <b>Total Non-Current Assets</b>          |            | <b>48,027,515</b> | <b>36,787,259</b> |
| <b>Total Assets</b>                      |            | <b>86,868,085</b> | <b>80,874,771</b> |
| <b>LIABILITIES</b>                       |            |                   |                   |
| <b>Current liabilities</b>               |            |                   |                   |
| Trade and other payables                 | 4.4        | 4,716,742         | 7,066,484         |
| Unearned revenue                         | 4.5        | 72,375            | 1,670,100         |
| Contract liability                       | 4.6        | 18,099,115        | 18,098,880        |
| Borrowings                               | 5.1        | 3,611,778         | 2,277,728         |
| Employee benefits                        | 7.1        | 661,266           | 355,057           |
| Current tax liabilities                  |            | 3,568,791         | 1,263,859         |
| <b>Total Current Liabilities</b>         |            | <b>30,730,067</b> | <b>30,732,108</b> |
| <b>Non-current liabilities</b>           |            |                   |                   |
| Provisions                               | 3.5        | 253,968           | 247,834           |
| Long term borrowings                     | 5.1        | 4,115,217         | 2,788,682         |
| Employee benefits                        | 7.1        | 126,795           | 99,024            |
| Deferred tax liabilities                 | 2.4(ii)(b) | 5,653,489         | 4,955,747         |
| <b>Total Non-current Liabilities</b>     |            | <b>10,149,469</b> | <b>8,091,287</b>  |
| <b>Total Liabilities</b>                 |            | <b>40,879,536</b> | <b>38,823,395</b> |
| <b>NET ASSETS</b>                        |            | <b>45,988,549</b> | <b>42,051,376</b> |

# **Consolidated balance sheet** *(continued)*

as at 31 December 2019

|                                          | Notes  | 31 Dec 2019<br>\$   | 31 Dec 2018<br>\$ |
|------------------------------------------|--------|---------------------|-------------------|
| <b>Equity</b>                            |        |                     |                   |
| Contributed equity                       | 5.3(a) | <b>64,927,687</b>   | 64,919,201        |
| Reserves                                 | 5.3(b) | <b>(21,499,253)</b> | (21,439,180)      |
| Retained earnings / (accumulated losses) | 5.3(c) | <b>2,446,476</b>    | (1,542,284)       |
| Parent entity interest                   |        | <b>45,874,910</b>   | 41,937,737        |
| Non-controlling interest                 | 5.3(d) | <b>113,639</b>      | 113,639           |
| <b>TOTAL EQUITY</b>                      |        | <b>45,988,549</b>   | 42,051,376        |

*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 2019

|                                                               | Notes   | 31 Dec 2019<br>\$  | 31 Dec 2018<br>\$ |
|---------------------------------------------------------------|---------|--------------------|-------------------|
| <b>Cash flows from operating activities</b>                   |         |                    |                   |
| Receipts from customers (inclusive of goods and services tax) |         | 57,407,422         | 55,216,674        |
| Payments to suppliers and employees                           |         | (42,522,306)       | (40,585,762)      |
| Income tax paid                                               |         | (1,615,171)        | (128,299)         |
| <b>Net cash inflow from operating activities</b>              | 4.1(ii) | <b>13,269,945</b>  | 14,502,613        |
| <b>Cash flows from investing activities</b>                   |         |                    |                   |
| Payments for exploration expenditure                          |         | (3,228,848)        | (4,612,163)       |
| Payments for property, plant and equipment                    |         | (1,737,532)        | (4,141,718)       |
| Payments for investments                                      |         | -                  | (174,812)         |
| Acquisition of exploration assets                             |         | -                  | (676,765)         |
| Proceeds from disposal of property, plant and equipment       |         | -                  | 9,467             |
| Advance (to)/from third parties                               |         | (398,056)          | 91,180            |
| Interest received                                             |         | 128,103            | 122,378           |
| Payment for acquisition of business – Skaland Graphite AS     |         | (4,544,087)        | -                 |
| Payment for development expenditure                           |         | (170,207)          | -                 |
| <b>Net cash outflow from investing activities</b>             |         | <b>(9,950,627)</b> | (9,382,433)       |
| <b>Cash flows from financing activities</b>                   |         |                    |                   |
| Dividends paid to shareholders                                | 2.6     | (3,839,471)        | (3,831,078)       |
| Proceeds from borrowings                                      |         | -                  | 2,974,756         |
| Repayment of borrowings                                       |         | (3,298,883)        | (2,114,387)       |
| Interest paid on borrowings                                   |         | (228,241)          | (186,751)         |
| <b>Net cash outflow from financing activities</b>             |         | <b>(7,366,595)</b> | (3,157,460)       |
| <b>Net (decrease)/increase in cash and cash equivalents</b>   |         | <b>(4,047,277)</b> | 1,962,720         |
| Cash and cash equivalents at beginning of financial year      |         | 12,410,510         | 10,975,817        |
| Effects of exchange rate changes on cash and cash equivalents |         | (270,619)          | (528,027)         |
| <b>Cash and cash equivalents at end of financial year</b>     | 4.1     | <b>8,092,614</b>   | 12,410,510        |

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 2019

|                                                      | Contributed equity | Reserves            | Retained earnings / (accumulated losses) | Totals            | Non-controlling interest | Total equity      |
|------------------------------------------------------|--------------------|---------------------|------------------------------------------|-------------------|--------------------------|-------------------|
| <b>For the year ended 31 December 2019</b>           | <b>\$</b>          | <b>\$</b>           | <b>\$</b>                                | <b>\$</b>         | <b>\$</b>                | <b>\$</b>         |
| At 1 January 2019                                    | 64,919,201         | (21,439,180)        | (1,542,284)                              | 41,937,737        | 113,639                  | 42,051,376        |
| Profit for the year                                  | -                  | -                   | 7,828,231                                | 7,828,231         | -                        | 7,828,231         |
| Other comprehensive income for the year              | -                  | (313,397)           | -                                        | (313,397)         | -                        | (313,397)         |
| <b>Total comprehensive income for the year</b>       | <b>-</b>           | <b>(313,397)</b>    | <b>7,828,231</b>                         | <b>7,514,834</b>  | <b>-</b>                 | <b>7,514,834</b>  |
| Transaction with owners in their capacity as owners: |                    |                     |                                          |                   |                          |                   |
| Conversion of unlisted performance rights            | 8,486              | (8,486)             | -                                        | -                 | -                        | -                 |
| Share based payments                                 | -                  | 261,810             | -                                        | 261,810           | -                        | 261,810           |
| Dividends paid                                       | -                  | -                   | (3,839,471)                              | (3,839,471)       | -                        | (3,839,471)       |
| <b>Balance at the end of the year</b>                | <b>64,927,687</b>  | <b>(21,499,253)</b> | <b>2,446,476</b>                         | <b>45,874,910</b> | <b>113,639</b>           | <b>45,988,549</b> |

|                                                             | Contributed equity | Reserves            | Accumulated losses | Totals            | Non-controlling interest | Total equity      |
|-------------------------------------------------------------|--------------------|---------------------|--------------------|-------------------|--------------------------|-------------------|
| <b>For the year ended 31 December 2018</b>                  | <b>\$</b>          | <b>\$</b>           | <b>\$</b>          | <b>\$</b>         | <b>\$</b>                | <b>\$</b>         |
| At 1 January 2018                                           | 64,420,299         | (13,116,794)        | (5,488,768)        | 45,814,737        | 113,639                  | 45,928,376        |
| Adjustment to opening retained earnings                     | -                  | -                   | (1,246,942)        | (1,246,942)       | -                        | (1,246,942)       |
| Adjusted 1 January 2018                                     | 64,420,299         | (13,116,794)        | (6,735,710)        | 44,567,795        | 113,639                  | 44,681,434        |
| Profit for the year                                         | -                  | -                   | 8,823,231          | 8,823,231         | -                        | 8,823,231         |
| Other comprehensive income for the year                     | -                  | (8,063,464)         | -                  | (8,063,464)       | -                        | (8,063,464)       |
| <b>Total comprehensive income for the year</b>              | <b>-</b>           | <b>(8,063,464)</b>  | <b>8,823,231</b>   | <b>759,767</b>    | <b>-</b>                 | <b>759,767</b>    |
| Transaction with owners in their capacity as owners:        |                    |                     |                    |                   |                          |                   |
| Conversion of unlisted performance rights                   | 498,902            | (498,902)           | -                  | -                 | -                        | -                 |
| Share based payments                                        | -                  | 441,253             | -                  | 441,253           | -                        | 441,253           |
| Transfer to retained earnings on expiry of unlisted options | -                  | (201,273)           | 201,273            | -                 | -                        | -                 |
| Dividends paid                                              | -                  | -                   | (3,831,078)        | (3,831,078)       | -                        | (3,831,078)       |
| <b>Balance at the end of the year</b>                       | <b>64,919,201</b>  | <b>(21,439,180)</b> | <b>(1,542,284)</b> | <b>41,937,737</b> | <b>113,639</b>           | <b>42,051,376</b> |

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

## Notes to the consolidated 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 2019 was authorised for issue in accordance with a resolution of directors with effect on 28 February 2020.

#### 1.2 Basis of accounting

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:

- financial assets and liabilities

(iii) *Presentation currency*

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

#### 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.

## Notes to the consolidated financial statements *(continued)*

### 1. Basis of Preparation *(continued)*

#### 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 2019 to 31 December 2019; 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.

##### *(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.

## Notes to the consolidated financial statements *(continued)*

### 1. Basis of Preparation *(continued)*

#### 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

Note 6.3: Business combinations

#### 1.8 Application of new and revised Australian Accounting Standards

A new standard became applicable for the current reporting period and the Group had to change its accounting policies and made adjustments as a result of adopting the following standard:

- AASB 16 Leases.

The impact of the adoption of these standards and the new accounting policies are disclosed below.

##### **AASB 16 Leases**

AASB 16 supersedes AASB 117 Leases, Interpretation 4 Determining whether an Arrangement contains a Lease, Interpretation 115 Operating Leases-Incentives and Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

## Notes to the consolidated financial statements (continued)

### 1. Basis of Preparation (continued)

#### 1.8 Application of new and revised Australian Accounting Standards (continued)

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying AASB 117 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption of AASB 16 as at 1 January 2019 (increase/(decrease)) is as follows:

|                               | 1 Jan 19<br>\$ |
|-------------------------------|----------------|
| <b>Assets</b>                 |                |
| Mine development expenditure  | (220,874)      |
| Property, plant and equipment | 1,368,235      |
| <b>Total assets</b>           | 1,147,361      |
| <b>Liabilities</b>            |                |
| Borrowings                    | 1,147,361      |
| <b>Total liabilities</b>      | 1,147,361      |

#### a) Nature of the effect of adoption of AASB 16

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased asset was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepayments and trade and other payables, respectively.

Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

#### *Leases previously classified as finance leases*

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e. the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under AASB 117). The requirements of AASB 16 was applied to these leases from 1 January 2019.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

## Notes to the consolidated financial statements (continued)

### 1. Basis of Preparation (continued)

#### 1.8 Application of new and revised Australian Accounting Standards (continued)

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of \$4,106,736 (net) were recognised and presented separately in the property, plant and equipment note. This includes the lease assets recognised previously under finance leases of \$2,959,375 that were reclassified from property, plant and equipment.
- Additional lease liabilities of \$1,147,361 (included in Borrowings) were recognised.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

|                                                                              | \$               |
|------------------------------------------------------------------------------|------------------|
| <b>Operating lease commitments as at 31 December 2018</b>                    | <b>1,177,186</b> |
| Less:                                                                        |                  |
| Commitments relating to short-term leases                                    | (29,826)         |
| Commitments relating to leases of low-value assets                           | -                |
| Add:                                                                         |                  |
| Commitments relating to leases previously classified as finance leases       | 2,819,875        |
| Payments in optional extension periods not recognised as at 31 December 2018 | -                |
| <b>Lease liabilities as at 1 January 2019</b>                                | <b>3,967,235</b> |

#### b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of AASB 16, which have been applied from the date of initial application:

##### *Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

##### *Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

## Notes to the consolidated financial statements (continued)

### 1. Basis of Preparation (continued)

#### 1.8 Application of new and revised Australian Accounting Standards (continued)

##### *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below \$5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

##### *Significant judgement in determining the lease term of contracts with renewal options*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Group did not include the renewal period as part of the lease term for leases of property as renewal was not considered probable.

#### c) Amounts recognised in the statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

| <b>Right-of-use assets</b>       | <b>\$</b>   |
|----------------------------------|-------------|
| <b>2019</b>                      |             |
| Balance at 1 January             | 4,106,736   |
| Additions                        | -           |
| Depreciation charge for the year | (1,390,737) |
| FX                               | 62,345      |
| Balance as at 31 December        | 2,778,344   |
| <b>Lease liabilities</b>         | <b>\$</b>   |
| <b>2019</b>                      |             |
| Balance at 1 January             | 3,967,235   |
| Additions                        | -           |
| Interest expense                 | 335,206     |
| Payments                         | (1,943,841) |
| FX                               | 52,736      |
| Balance as at 31 December        | 2,411,336   |

The Group recognised rent and equipment hire expenses from short-term leases of \$735,784 for the 12 months ended 31 December 2019.

## 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 six 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. Graphite mining and production (Skaland) – Norway;
4. Exploration activities - Australia;
5. Exploration activities - Iran; and
6. Corporate (management and administration of the Company's projects and marketing and sales of finished products) – Australia, South Africa, United Kingdom 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 2019 is as follows:

| 2019                                   | Tormin project    | Xolobeni project | Skaland Project   | Australia exploration | Iran exploration | Corporate         | Consolidation eliminations | Total             |
|----------------------------------------|-------------------|------------------|-------------------|-----------------------|------------------|-------------------|----------------------------|-------------------|
|                                        | \$                | \$               | \$                | \$                    | \$               | \$                | \$                         | \$                |
| Total segment revenue                  | 60,682,271        | -                | 1,213,862         | -                     | -                | 59,588,825        | -                          | 121,484,958       |
| Inter-segment revenue                  | (59,701,388)      | -                | -                 | -                     | -                | -                 | -                          | (59,701,388)      |
| <b>Revenue from external customers</b> | <b>980,883</b>    | <b>-</b>         | <b>1,213,862</b>  | <b>-</b>              | <b>-</b>         | <b>59,588,825</b> | <b>-</b>                   | <b>61,783,570</b> |
| <b>Adjusted EBITDA</b>                 | <b>13,681,393</b> | <b>2,564</b>     | <b>652,345</b>    | <b>(131)</b>          | <b>(484,064)</b> | <b>5,324,138</b>  | <b>(2,692,860)</b>         | <b>16,483,385</b> |
| Depreciation and amortisation          | 4,527,344         | -                | 178,007           | 5,647                 | -                | 63,799            | -                          | 4,774,797         |
| Impairment                             | -                 | -                | -                 | -                     | -                | -                 | -                          | -                 |
| <b>Total segment assets</b>            | <b>35,916,396</b> | <b>5,347,669</b> | <b>11,243,874</b> | <b>11,143,193</b>     | <b>501,361</b>   | <b>23,712,904</b> | <b>(997,312)</b>           | <b>86,868,085</b> |
| <b>Total segment liabilities</b>       | <b>13,456,839</b> | <b>5,245,311</b> | <b>10,806,145</b> | <b>10,271,875</b>     | <b>936,265</b>   | <b>1,452,549</b>  | <b>(1,289,448)</b>         | <b>40,879,536</b> |

| 2018                                   | Tormin project    | Xolobeni project | Skaland Project | Australia exploration | Iran exploration | Corporate         | Consolidation eliminations | Total             |
|----------------------------------------|-------------------|------------------|-----------------|-----------------------|------------------|-------------------|----------------------------|-------------------|
|                                        | \$                | \$               | \$              | \$                    | \$               | \$                | \$                         | \$                |
| Total segment revenue                  | 54,756,765        | -                | -               | -                     | -                | 55,299,993        | -                          | 110,056,758       |
| Inter-segment revenue                  | (54,657,595)      | -                | -               | -                     | -                | -                 | -                          | (54,657,595)      |
| <b>Revenue from external customers</b> | <b>99,170</b>     | <b>-</b>         | <b>-</b>        | <b>-</b>              | <b>-</b>         | <b>55,299,993</b> | <b>-</b>                   | <b>55,399,163</b> |
| <b>Adjusted EBITDA</b>                 | <b>6,044,671</b>  | <b>(3,972)</b>   | <b>-</b>        | <b>-</b>              | <b>99,047</b>    | <b>1,588,187</b>  | <b>6,925,257</b>           | <b>14,653,190</b> |
| Depreciation and amortisation          | 4,020,769         | -                | -               | -                     | -                | 90,058            | -                          | 4,110,827         |
| Impairment                             | -                 | -                | -               | -                     | -                | -                 | -                          | -                 |
| <b>Total segment assets</b>            | <b>29,926,020</b> | <b>5,204,416</b> | <b>-</b>        | <b>8,304,561</b>      | <b>854,943</b>   | <b>32,810,759</b> | <b>3,774,072</b>           | <b>80,874,771</b> |
| <b>Total segment liabilities</b>       | <b>13,937,142</b> | <b>5,107,103</b> | <b>-</b>        | <b>8,305,914</b>      | <b>781,526</b>   | <b>9,246,047</b>  | <b>1,445,663</b>           | <b>38,823,395</b> |

## 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 2019<br>\$ | 31 Dec 2018<br>\$ |
|------------------------------------|-------------------|-------------------|
| Adjusted EBITDA                    | 16,483,385        | 14,653,190        |
| Interest income/(expense)          | 158,755           | (102,756)         |
| Depreciation and amortisation      | (4,774,797)       | (4,110,827)       |
| Operating profit before income tax | <u>11,867,343</u> | <u>10,439,607</u> |

#### 2.2 Revenue

##### Accounting Policies

Revenue is recognised when the significant control of products has been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The timing of the transfer of control varies depending on the individual terms of the sales agreement. Generally for the Group, this is based on free-on-board ("FOB") sales where transfer of control passes at port of origin or cost, insurance and freight ("CIF") sales where control passes at port of destination. Sales revenue is recognised for FOB and CIF sales on bill of lading date. 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.

The majority of the Group's revenue is derived from product sales with revenue recognised at a point in time when control of the goods has transferred to the customer.

Revenue from the sales of garnet product has two performance obligations, sale of product and transportation services, both of which are satisfied at a point in time. Revenue from the stockpiling of goods is deferred until final sale of product when control of product is finally transferred.

|                                   | 31 Dec 2019<br>\$ | 31 Dec 2018<br>\$ |
|-----------------------------------|-------------------|-------------------|
| <b>From continuing operations</b> |                   |                   |
| <i>Sales revenue</i>              |                   |                   |
| Sale of product                   | <u>59,514,773</u> | <u>53,523,922</u> |
| <i>Other revenue</i>              |                   |                   |
| Stockpile area maintenance fee    | 1,211,899         | 1,776,071         |
| Other income                      | <u>1,056,898</u>  | <u>99,170</u>     |
|                                   | <u>2,268,797</u>  | <u>1,875,241</u>  |

## Notes to the consolidated financial statements (continued)

### 2. Financial Performance (continued)

#### 2.3 Expenses

|  | 31 Dec 2019 | 31 Dec 2018 |
|--|-------------|-------------|
|  | \$          | \$          |

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                                         | 12,997,993 | 13,638,210 |
| Fuel                                                         | 5,574,168  | 6,723,039  |
| Wages and salaries                                           | 6,648,477  | 6,216,226  |
| Repairs and maintenance                                      | 3,544,891  | 4,565,983  |
| Depreciation and amortisation – mining and processing assets | 4,705,351  | 4,020,769  |

##### (ii) Administration expenses

Administration expenses include the following material expenditure items:

|                                                     |           |           |
|-----------------------------------------------------|-----------|-----------|
| Directors and key management personnel remuneration | 2,079,840 | 2,476,421 |
| Depreciation – corporate assets                     | 69,446    | 90,058    |

#### 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/loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially 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).

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

## Notes to the consolidated financial statements (continued)

### 2. Financial Performance (continued)

#### 2.4 Taxation (continued)

##### (i) Income tax expense (continued)

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.

##### The components of income tax expense comprise:

|                                                                       | 31 Dec 2019<br>\$ | 31 Dec 2018<br>\$ |
|-----------------------------------------------------------------------|-------------------|-------------------|
| Current tax                                                           | 3,873,170         | 1,373,645         |
| Deferred tax                                                          | 607,977           | 660,212           |
| Adjustments for current tax of prior periods                          | (442,035)         | (417,481)         |
|                                                                       | <b>4,039,112</b>  | <b>1,616,376</b>  |
| Income tax expense is attributable to:                                |                   |                   |
| Profit from continuing operations                                     | 4,039,112         | 1,616,376         |
| Aggregate income tax expense                                          | <b>4,039,112</b>  | <b>1,616,376</b>  |
| Deferred income tax expense included in income tax expense comprises: |                   |                   |
| Decrease in deferred tax assets                                       | 7,387             | 798,802           |
| Decrease /(increase) in deferred tax liabilities                      | 600,590           | (138,590)         |
|                                                                       | <b>607,977</b>    | <b>660,212</b>    |

##### Numerical reconciliation of income tax expense to prima facie tax expense

|                                                                                                | 31 Dec 2019<br>\$ | 31 Dec 2018<br>\$ |
|------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Profit from continuing operations before income tax expense                                    | 11,867,343        | 10,439,607        |
| Prima facie tax payable on profit from ordinary activities before at a rate of 30% (2018: 30%) | 3,560,202         | 3,131,882         |
| Foreign tax rate differential                                                                  | (237,546)         | (49,803)          |
| Tax at consolidated amount                                                                     | <b>3,322,656</b>  | <b>3,082,079</b>  |
| <b>Tax effect of:</b>                                                                          |                   |                   |
| Entertainment                                                                                  | 7,984             | 5,999             |
| Foreign exchange                                                                               | 953,385           | (1,319,065)       |
| Donations                                                                                      | 3,811             | 12,410            |
| Amortisation of exploration and evaluation asset                                               | 84,164            | 92,076            |
| Share based payment                                                                            | 77,896            | 132,376           |
| AASB15 adjustment to opening retained earnings                                                 | -                 | 528,700           |
| Other non-assessable items                                                                     | 124,922           | 1,186             |
| Utilisation of income tax losses/ capital losses                                               | (93,671)          | (501,904)         |
| Adjustment for current tax of prior period                                                     | (442,035)         | (417,481)         |
| Income tax expense                                                                             | <b>4,039,112</b>  | <b>1,616,376</b>  |

## Notes to the consolidated financial statements (continued)

### 2. Financial Performance (continued)

#### 2.4 Taxation (continued)

##### (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. The Group has \$6,411 (2018: \$10,656) of tax losses carried forward. These losses relate to subsidiaries that have a history of losses, do not expire, and may not be used to offset taxable income. The Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. On this basis, the Group has determined that it can recognise deferred tax assets on the tax losses carried forward.

The Group operates in a number of tax jurisdictions. Transactions between jurisdictions are subject to transfer pricing requirements which can require modification as the Group's operations evolve.

##### (a) Deferred tax assets

|                                                  | 31 Dec 2019        | 31 Dec 2018      |
|--------------------------------------------------|--------------------|------------------|
|                                                  | \$                 | \$               |
| <i>Recognised deferred tax assets</i>            |                    |                  |
| Tax losses                                       | 6,411              | 10,656           |
| Lease liability                                  | 675,174            | -                |
| Provisions/accrued expenditure                   | 534,659            | 251,780          |
| Unrealised foreign exchange loss                 | 2,352              | -                |
| Business related expenditure and borrowing costs | 68,493             | 221,495          |
|                                                  | <b>1,287,089</b>   | <b>483,931</b>   |
| Set-off against deferred tax liabilities         | <b>(1,287,089)</b> | <b>(483,931)</b> |
|                                                  | <b>-</b>           | <b>-</b>         |

## 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<br>\$ | Lease liability<br>\$ | Provisions/<br>accrued<br>expenditure<br>\$ | Unrealised<br>foreign<br>exchange loss | Business<br>related<br>expenditure and<br>borrowing costs<br>\$ | Total<br>\$      |
|-------------------------------------------|------------------|-----------------------|---------------------------------------------|----------------------------------------|-----------------------------------------------------------------|------------------|
| At 1 January 2019<br>(charged) / credited | 10,656           | -                     | 251,780                                     | -                                      | 221,495                                                         | 483,931          |
| - to profit or loss                       | (4,245)          | 675,174               | 282,879                                     | 2,352                                  | (153,002)                                                       | 803,158          |
| At 31 December 2019                       | <b>6,411</b>     | <b>675,174</b>        | <b>534,659</b>                              | <b>2,352</b>                           | <b>68,493</b>                                                   | <b>1,287,089</b> |

| Movements                                 | Tax losses<br>\$ | Trade and<br>other<br>receivables<br>\$ | Provisions/<br>accrued<br>expenditure<br>\$ | Business related<br>expenditure and<br>borrowing costs<br>\$ | Total<br>\$    |
|-------------------------------------------|------------------|-----------------------------------------|---------------------------------------------|--------------------------------------------------------------|----------------|
| At 1 January 2018<br>(charged) / credited | 7,274            | 6,450                                   | 175,029                                     | 39,690                                                       | 228,443        |
| - to profit or loss                       | 3,382            | (6,450)                                 | 76,751                                      | 181,805                                                      | 255,488        |
| December 2018                             | <b>10,656</b>    | <b>-</b>                                | <b>251,780</b>                              | <b>221,495</b>                                               | <b>483,931</b> |

(b) Deferred tax liabilities

|                                     | 31 Dec 2019<br>\$  | 31 Dec 2018<br>\$ |
|-------------------------------------|--------------------|-------------------|
| Unrealised foreign exchange gain    | -                  | 112,619           |
| Property, plant and equipment       | 4,779,254          | 4,094,683         |
| Prepayments                         | 71,984             | 16,224            |
| Provisions                          | 3,500              | -                 |
| Exploration Expenditure             | 2,085,840          | 1,216,152         |
|                                     | <b>6,940,578</b>   | <b>5,439,678</b>  |
| Set-off against deferred tax assets | <b>(1,287,089)</b> | <b>(483,931)</b>  |
|                                     | <b>5,653,489</b>   | <b>4,955,747</b>  |

## Notes to the consolidated financial statements (continued)

### 2. Financial Performance (continued)

#### 2.4 Taxation (continued)

(ii) Deferred tax assets and liabilities (continued)

(b) Deferred tax liabilities (continued)

| Movements                  | Unrealised foreign exchange gain | Property, plant and equipment | Prepayments   | Provisions   | Exploration expenditure | Total            |
|----------------------------|----------------------------------|-------------------------------|---------------|--------------|-------------------------|------------------|
|                            | \$                               | \$                            | \$            | \$           | \$                      | \$               |
| At 1 January 2019          | 112,619                          | 4,094,683                     | 16,224        | -            | 1,216,152               | 5,439,678        |
| (charged) / credited       |                                  |                               |               |              |                         |                  |
| - to profit or loss        | (112,619)                        | 684,571                       | 55,760        | 3,500        | 869,688                 | 1,500,900        |
| <b>At 31 December 2019</b> | <b>-</b>                         | <b>4,779,254</b>              | <b>71,984</b> | <b>3,500</b> | <b>2,085,840</b>        | <b>6,940,578</b> |

| Movements                  | Unrealised foreign exchange gain | Property, plant and equipment | Prepayments   | Exploration expenditure | Total            |
|----------------------------|----------------------------------|-------------------------------|---------------|-------------------------|------------------|
|                            | \$                               | \$                            | \$            | \$                      | \$               |
| At 1 January 2018          | 692,237                          | 3,610,792                     | 30,417        | -                       | 4,333,446        |
| (charged) / credited       |                                  |                               |               |                         |                  |
| - to profit or loss        | (579,618)                        | 483,891                       | (14,193)      | 1,216,152               | 1,106,232        |
| <b>At 31 December 2018</b> | <b>112,619</b>                   | <b>4,094,683</b>              | <b>16,224</b> | <b>1,216,152</b>        | <b>5,439,678</b> |

#### 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.

|                                                                                           | 2019<br>US Cents | 2018<br>US Cents |
|-------------------------------------------------------------------------------------------|------------------|------------------|
| From continuing operations attributable to the ordinary equity holders of the Company     | 1.86             | 2.10             |
| Total basic earnings per share attributable to the ordinary equity holders of the Company | 1.86             | 2.10             |

## Notes to the consolidated financial statements (continued)

### 2. Financial Performance (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.

|                                                                                                                                            | 2019<br>US Cents | 2018<br>US Cents |
|--------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| From continuing operations attributable to the ordinary equity holders of the Company                                                      | 1.85             | 2.08             |
| Total diluted earnings per share attributable to the ordinary equity holders of the Company                                                | 1.85             | 2.08             |
| <b>Reconciliation of earnings used in the calculation of earnings per share</b>                                                            |                  |                  |
| <i>Basic earnings per share</i>                                                                                                            | 2019<br>\$       | 2018<br>\$       |
| Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share:                            |                  |                  |
| From continuing operations                                                                                                                 | 7,828,231        | 8,823,231        |
| <i>Diluted earnings per share</i>                                                                                                          |                  |                  |
| Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share:                          |                  |                  |
| From continuing operations                                                                                                                 | 7,828,231        | 8,823,231        |
|                                                                                                                                            | 2019<br>Number   | 2018<br>Number   |
| <b>Weighted average number of shares used as the denominator</b>                                                                           |                  |                  |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share                                 | 421,146,913      | 419,708,741      |
| Adjustment for calculation of diluted earnings per share:                                                                                  |                  |                  |
| Options                                                                                                                                    | -                | (1,947,802)      |
| Performance rights                                                                                                                         | 2,111,324        | 6,078,434        |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | 423,258,237      | 423,839,373      |

## Notes to the consolidated financial statements (continued)

### 2. Financial Performance (continued)

#### 2.5 Earnings per share (continued)

##### (ii) Diluted earnings per share (continued)

The table below details the number of performance rights that have been granted and are on issue as at 31 December 2019. These potential ordinary shares have been included in the determination of dilutive earnings per share as vesting conditions have been met.

| Number  | Type of Security   | Exercise price | Expiry date  |
|---------|--------------------|----------------|--------------|
| 500,000 | Performance Rights | AUD \$nil      | 31 May 2020  |
| 500,000 | Performance Rights | AUD \$nil      | 31 May 2021  |
| 666,666 | Performance Rights | AUD \$nil      | 1 Oct 2021   |
| 500,000 | Performance Rights | AUD \$nil      | 30 Sept 2021 |

#### 2.6 Dividends

##### Accounting policies

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

|                                             | Dividend<br>per share<br>US Cents | \$               |
|---------------------------------------------|-----------------------------------|------------------|
| <b>Dividends recognised during the year</b> |                                   |                  |
| 2019                                        |                                   |                  |
| Final 2018 ordinary                         | 0.49                              | 2,067,181        |
| Interim 2019 ordinary                       | 0.42                              | 1,772,290        |
|                                             |                                   | <b>3,839,471</b> |
| 2018                                        |                                   |                  |
| Final 2017 ordinary                         | 0.49                              | 2,048,898        |
| Interim 2018 ordinary                       | 0.43                              | 1,782,180        |
|                                             |                                   | <b>3,831,078</b> |

### 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

## Notes to the consolidated financial statements (continued)

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

#### 3.1 Exploration and evaluation assets (continued)

- 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.

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

#### Significant judgement

The carrying value of exploration assets is reviewed on an area of interest basis. Exploration in Australia, excluding Munglinup, 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 2019, 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 2019<br>\$ | 31 Dec 2018<br>\$ |
|----------------------------------------------------------------|------|-------------------|-------------------|
| As at 1 January                                                |      | 15,369,068        | 11,200,454        |
| Acquisition of exploration asset                               |      | 26,082            | 676,765           |
| Expenditure during the year                                    |      | 3,202,766         | 4,612,164         |
| Re-classification: transfer from property, plant and equipment | 3.3  | -                 | 562,532           |
| Exchange differences                                           |      | (326,883)         | (1,682,847)       |
| As at 31 December                                              |      | 18,271,033        | 15,369,068        |

#### 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.

## Notes to the consolidated financial statements (continued)

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

#### 3.2 Development expenditure (continued)

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. Refer to the table in note 3.3 for basis of amortisation rates used.

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

#### 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 2019<br>\$ | 31 Dec 2018<br>\$ |
|----------------------------------------|-------------------|-------------------|
| As at 1 January                        | 5,240,911         | 7,306,979         |
| AASB 16 Adoption                       | (220,874)         | -                 |
|                                        | <u>5,020,037</u>  | <u>7,306,979</u>  |
| Acquisition of a subsidiary (note 6.3) | 6,032,998         | -                 |
| Additions                              | 170,207           | -                 |
| Amortisation expense                   | (1,125,315)       | (1,138,527)       |
| Exchange differences                   | 314,683           | (927,541)         |
|                                        | <u>10,412,610</u> | <u>5,240,911</u>  |

#### Carrying value assessment

MRC has made a S102 Expanded Mining Right Application for access to the Northern Beaches and the Inland Strand. The Company has received its Environmental Impact Assessment approval during the year, which is subject to Appeal.

During the year ended 31 December 2019, the Tormin mining rights were extended for an additional 10 year period.

Mining grades at Tormin have remained steady throughout 2019.

EBITDA and EBIT for 2019 are higher than 2018.

The Company has undertaken an assessment of impairment indicators and concluded that there are no indicators of impairment of the Tormin assets as at 31 December 2019.

## Notes to the consolidated financial statements (continued)

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

#### 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                                        |

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.

## Notes to the consolidated financial statements *(continued)*

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

#### 3.3 Property, plant and equipment *(continued)*

##### ***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.

## Notes to the consolidated financial statements (continued)

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

#### 3.3 Property, plant and equipment (continued)

|                                                  | Freehold<br>land and<br>buildings | Furniture,<br>fittings and<br>equipment | Plant and<br>machinery | Mine<br>vehicles | Decom-<br>missioning<br>asset | Right-of-use<br>asset | Capex work in<br>progress | Total        |
|--------------------------------------------------|-----------------------------------|-----------------------------------------|------------------------|------------------|-------------------------------|-----------------------|---------------------------|--------------|
|                                                  | \$                                | \$                                      | \$                     | \$               | \$                            |                       | \$                        | \$           |
| <b>Year ended 31 December 2019</b>               |                                   |                                         |                        |                  |                               |                       |                           |              |
| <b>Cost at fair value</b>                        |                                   |                                         |                        |                  |                               |                       |                           |              |
| As at 1 January 2019                             | 501,160                           | 755,431                                 | 22,327,467             | 125,336          | 247,834                       | -                     | 4,287,854                 | 28,245,082   |
| AASB 16 adoption                                 | -                                 | -                                       | -                      | -                | -                             | 4,239,261             | (2,738,502)               | 1,500,759    |
| Adjusted 1 January 2019                          | 501,160                           | 755,431                                 | 22,327,467             | 125,336          | 247,834                       | 4,239,261             | 1,549,352                 | 29,745,841   |
| Acquisition of a subsidiary (note 6.3)           | 982,987                           | -                                       | 1,083,064              | -                | -                             | -                     | -                         | 2,066,051    |
| Additions                                        | -                                 | -                                       | -                      | -                | -                             | -                     | 1,737,532                 | 1,737,532    |
| Disposals                                        | -                                 | (8,570)                                 | -                      | -                | -                             | -                     | -                         | (8,570)      |
| Re-classifications                               | -                                 | 99,257                                  | 564,284                | -                | -                             | -                     | (663,541)                 | -            |
| Exchange differences                             | 47,807                            | (85,771)                                | 650,194                | 3,102            | 6,134                         | 104,917               | 683,140                   | 1,409,523    |
| As at 31 December 2019                           | 1,531,954                         | 760,347                                 | 24,625,009             | 128,438          | 253,968                       | 4,344,178             | 3,306,483                 | 34,950,377   |
| <b>Accumulated depreciation and amortisation</b> |                                   |                                         |                        |                  |                               |                       |                           |              |
| As at 1 January 2019                             | (37,274)                          | (574,725)                               | (12,152,179)           | (87,593)         | (72,746)                      | -                     | -                         | (12,924,517) |
| AASB 16 adoption                                 | -                                 | -                                       | -                      | -                | -                             | (132,525)             | -                         | (132,525)    |
| Adjusted 1 January 2019                          | (37,274)                          | (574,725)                               | (12,152,179)           | (87,593)         | (72,746)                      | (132,525)             | -                         | (13,057,042) |
| Depreciation and amortisation                    | (14,198)                          | (95,869)                                | (2,102,794)            | (21,184)         | (24,699)                      | (1,390,737)           | -                         | (3,649,481)  |
| Disposals                                        | -                                 | 892                                     | -                      | -                | -                             | -                     | -                         | 892          |
| Exchange differences                             | (1,323)                           | (37)                                    | (364,945)              | (2,767)          | (2,498)                       | (42,572)              | -                         | (414,142)    |
| As at 31 December 2019                           | (52,795)                          | (669,739)                               | (14,619,918)           | (111,544)        | (99,943)                      | (1,565,834)           | -                         | (17,119,773) |
| <b>Net book amount</b>                           |                                   |                                         |                        |                  |                               |                       |                           |              |
| Cost at fair value                               | 1,531,954                         | 760,347                                 | 24,625,009             | 128,438          | 253,968                       | 4,344,178             | 3,306,483                 | 34,950,337   |
| Accumulated depreciation and amortisation        | (52,795)                          | (669,739)                               | (14,619,918)           | (111,544)        | (99,943)                      | (1,565,834)           | -                         | (17,119,773) |
| Net book amount                                  | 1,479,159                         | 90,608                                  | 10,005,091             | 16,894           | 154,025                       | 2,778,344             | 3,306,483                 | 17,830,604   |

## 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<br>and buildings | Furniture,<br>fittings and<br>equipment | Plant and<br>machinery | Mine vehicles | Decom-<br>missioning asset | Capex work in<br>progress | Total        |
|--------------------------------------------------|--------------------------------|-----------------------------------------|------------------------|---------------|----------------------------|---------------------------|--------------|
|                                                  | \$                             | \$                                      | \$                     | \$            | \$                         | \$                        | \$           |
| <b>Year ended 31 December 2018</b>               |                                |                                         |                        |               |                            |                           |              |
| <b>Cost at fair value</b>                        |                                |                                         |                        |               |                            |                           |              |
| As at 1 January 2018                             | 592,731                        | 697,395                                 | 26,158,995             | 145,713       | 169,145                    | 1,101,875                 | 28,865,854   |
| Additions                                        | -                              | -                                       | -                      | -             | 111,583                    | 4,141,718                 | 4,253,301    |
| Disposals                                        | (9,467)                        | -                                       | -                      | -             | -                          | -                         | (9,467)      |
| Re-classifications                               | -                              | 146,943                                 | (189,080)              | -             | -                          | (520,395)                 | (562,532)    |
| Exchange differences                             | (82,104)                       | (88,907)                                | (3,642,448)            | (20,377)      | (32,894)                   | (435,344)                 | (4,302,674)  |
| As at 31 December 2018                           | 501,160                        | 755,431                                 | 22,327,467             | 125,336       | 247,834                    | 4,287,854                 | 28,245,082   |
| <b>Accumulated depreciation and amortisation</b> |                                |                                         |                        |               |                            |                           |              |
| As at 1 January 2018                             | (26,771)                       | (527,764)                               | (11,144,047)           | (71,979)      | (67,658)                   | -                         | (11,838,219) |
| Depreciation and amortisation                    | (15,533)                       | (114,672)                               | (2,798,234)            | (27,999)      | (15,863)                   | -                         | (2,972,300)  |
| Exchange differences                             | 5,030                          | 67,711                                  | 1,790,102              | 12,385        | 10,775                     | -                         | 1,886,002    |
| As at 31 December 2018                           | (37,274)                       | (574,725)                               | (12,152,179)           | (87,593)      | (72,746)                   | -                         | (12,924,517) |
| <b>Net book amount</b>                           |                                |                                         |                        |               |                            |                           |              |
| Cost at fair value                               | 501,160                        | 755,431                                 | 22,327,467             | 125,336       | 247,834                    | 4,287,854                 | 28,245,082   |
| Accumulated depreciation and amortisation        | (37,274)                       | (574,725)                               | (12,152,179)           | (87,593)      | (72,746)                   | -                         | (12,924,517) |
| Net book amount                                  | 463,886                        | 180,706                                 | 10,175,288             | 37,743        | 175,088                    | 4,287,854                 | 15,320,565   |

## 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 2019<br>\$ | 31 Dec 2018<br>\$ |
|----------------------------------------|-------------------|-------------------|
| <b>Non-current</b>                     |                   |                   |
| Environmental rehabilitation provision | <u>253,968</u>    | <u>247,834</u>    |

#### 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 | - | - |
|-------------------------------|---|---|

##### 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 2019<br>\$ | 31 Dec 2018<br>\$ |
|--------------------------------------------------|-------------------|-------------------|
| Within one year                                  | 36,098            | 671,868           |
| Later than one year but no later than five years | 8,898             | 505,318           |
| Greater than 5 years                             | -                 | -                 |
|                                                  | <u>44,996</u>     | <u>1,177,186</u>  |

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.

#### 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.

## Notes to the consolidated financial statements (continued)

### 4. Working Capital Management (continued)

#### 4.1 Cash and cash equivalents (continued)

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 2019<br>\$ | 31 Dec 2018<br>\$ |
|--------------------------|-------------------|-------------------|
| <b>Cash assets</b>       |                   |                   |
| Cash at bank and in hand | <b>8,092,614</b>  | 12,410,510        |

#### (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 2019<br>\$  | 31 Dec 2018<br>\$ |
|--------------------------------------------------------------|--------------------|-------------------|
| Profit for the year                                          | <b>7,828,231</b>   | 8,823,231         |
| Adjustments for:                                             |                    |                   |
| Depreciation and amortisation                                | <b>4,774,797</b>   | 4,110,827         |
| Loss on disposal of asset                                    | -                  | -                 |
| Impairment loss                                              | -                  | -                 |
| Net finance costs                                            | <b>(128,103)</b>   | (122,378)         |
| Share based payments                                         | <b>261,810</b>     | 441,253           |
| Net exchange differences                                     | <b>176,978</b>     | (853,165)         |
| Change in operating assets and liabilities:                  |                    |                   |
| (Increase) / decrease in trade debtors                       | <b>(2,770,383)</b> | (107,332)         |
| (Increase) / decrease in prepayments                         | <b>(196,087)</b>   | 48,464            |
| (Increase) / decrease in inventories                         | <b>5,495,330</b>   | (529,471)         |
| (Decrease) / Increase in trade payables and unearned revenue | <b>(4,634,030)</b> | 3,251,928         |
| (Decrease) / increase in income tax payable                  | <b>2,304,932</b>   | (657,482)         |
| Increase in provisions                                       | <b>156,470</b>     | 96,738            |
|                                                              | <b>13,269,945</b>  | 14,502,613        |

#### (iii) Non-cash investing and financing activities

There was no plant and equipment acquired by finance leases in 2019. Plant and equipment acquired by finance leases in 2018 of \$2,849,774 was receipted by the Company and immediately repatriated to the supplier. These cash inflows and outflows have therefore been recognised in the 2018 cashflow statement.

## 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 2019 |  | 31 Dec 2018 |  |
|--------------------------------------------------------------|-------------|--|-------------|--|
|                                                              | \$          |  | \$          |  |
| Cash and cash equivalents                                    | 8,092,614   |  | 12,410,510  |  |
| Borrowings – repayable within one year (including overdraft) | (3,611,778) |  | (2,277,728) |  |
| Borrowings – repayable after one year                        | (4,115,217) |  | (2,788,682) |  |
| Net debt                                                     | 365,619     |  | 7,344,100   |  |
| Cash and cash equivalents                                    | 8,092,614   |  | 12,410,510  |  |
| Gross debt – variable interest rates                         | (7,726,995) |  | (5,066,410) |  |
| Net debt                                                     | 365,619     |  | 7,344,100   |  |

|                                 | Other assets |                          | Liabilities from financing activities |                              |                             | Total       |
|---------------------------------|--------------|--------------------------|---------------------------------------|------------------------------|-----------------------------|-------------|
|                                 | Cash         | Leases due within 1 year | Leases due after 1 year               | Borrowings due within 1 year | Borrowings due after 1 year |             |
|                                 | \$           | \$                       | \$                                    | \$                           | \$                          | \$          |
| Net debt as at 1 January 2018   | 10,975,817   | (566,550)                | (8,721)                               | (1,505,770)                  | (2,125,000)                 | 6,769,776   |
| Cash flows                      | 1,849,687    | (211,178)                | (2,154,961)                           | 5,770                        | 1,500,000                   | 989,318     |
| Foreign exchange adjustments    | (414,994)    | -                        | -                                     | -                            | -                           | (414,994)   |
| Net debt as at 31 December 2018 | 12,410,510   | (777,728)                | (2,163,682)                           | (1,500,000)                  | (625,000)                   | 7,344,100   |
| AASB 16 adoption                | -            | (540,706)                | (606,655)                             | -                            | -                           | (1,147,361) |
| Adjusted 1 January              | 12,410,510   | (1,318,434)              | (2,770,337)                           | (1,500,000)                  | (625,000)                   | 6,196,739   |
| Cash flows                      | (4,047,277)  | (104,390)                | 1,703,097                             | 875,000                      | 625,000                     | (948,570)   |
| Acquisitions                    | -            | -                        | -                                     | (1,563,954)                  | (3,047,977)                 | (4,611,931) |
| Foreign exchange adjustments    | (270,619)    | -                        | -                                     | -                            | -                           | (270,619)   |
| Net debt as at 31 December 2019 | 8,092,614    | (1,422,824)              | (1,067,240)                           | (2,188,954)                  | (3,047,977)                 | 365,619     |

## Notes to the consolidated financial statements (continued)

### 4. Working Capital Management (continued)

#### 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.

|                                               | 31 Dec 2019<br>\$ | 31 Dec 2018<br>\$ |
|-----------------------------------------------|-------------------|-------------------|
| <b>Current</b>                                |                   |                   |
| Trade receivables                             | 2,627,977         | 1,890,032         |
| Less: Provision for impairment of receivables | -                 | -                 |
|                                               | <b>2,627,977</b>  | 1,890,032         |
| Other receivables (i)                         | 5,136,452         | 3,222,371         |
| Prepayments                                   | 262,943           | 54,078            |
|                                               | <b>8,027,372</b>  | 5,166,481         |
| <b>Non-current</b>                            |                   |                   |
| Security deposits (ii)                        | 469,764           | 204,779           |
| Advance to Blue Bantry (iii)                  | 998,599           | 575,065           |
| Other receivables                             | 44,905            | 76,871            |
|                                               | <b>1,513,268</b>  | 856,715           |

- (i) Includes \$1,638,116 (2018: \$1,374,248) of VAT refundable from the South African Revenue Service.
- (ii) A secured deposit of \$469,764 (2018: \$204,779) with FirstRand Bank Limited 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 Rights.
- (iii) An amount of ZAR 14 million (2018: ZAR 8.25 million) has been advanced to the BEE partner, Blue Bantry (refer note 8.2 for further details).

##### Impairment of receivables

No impairment of receivables has been recognised by the Group for the year ended 31 December 2019. Refer to Note 5.4(a)(iv) for impairment & credit losses of receivables.

##### Fair values and credit risk

Due to the short term nature of these receivables the carrying values represent their respective fair values as at 31 December 2019 and 2018. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables disclosed above. The non-current trade receivables have a fair value of \$Nil as at 31 December 2019, compared to a carrying amount of \$Nil (2018: fair value of \$Nil and carrying amount of \$Nil).

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.

## Notes to the consolidated financial statements *(continued)*

### 4. Working Capital Management *(continued)*

#### 4.2 Trade and other receivables *(continued)*

##### *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.

##### *Recoverability of receivables*

The group has amounts due from various counterparties as a result of its operations in a number of jurisdictions. The recoverability these amounts which include certain input taxes and rebates is subject to interpretation of legislation and judgement on the credit risk of the counterparty.

##### *Rebate & Indirect Taxes*

The Group is eligible to claim and recover various indirect taxes and rebates from various taxation authorities where it has operations. The estimation of the amounts to which the Group is entitled to receive and will ultimately recover requires interpretation of legislation, compliance with administrative obligations and judgement on the credit risk of the counterparty.

#### 4.3 Inventories

##### **Accounting Policies**

Raw materials, stores, ore stockpiles, 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 or graphite products 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.

## Notes to the consolidated financial statements (continued)

### 4. Working Capital Management (continued)

#### 4.3 Inventories (continued)

|                                     | 31 Dec 2019<br>\$ | 31 Dec 2018<br>\$ |
|-------------------------------------|-------------------|-------------------|
| Raw materials at cost               | 329,291           | 355,364           |
| Finished product at cost            | 19,171,494        | 23,202,679        |
| Spare parts and consumables at cost | 2,442,546         | 2,198,682         |
|                                     | <u>21,943,331</u> | <u>25,756,725</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 2019<br>\$ | 31 Dec 2018<br>\$ |
|-----------------------------|-------------------|-------------------|
| Trade payables              | 2,062,482         | 5,310,043         |
| Other payables and accruals | 2,654,260         | 1,756,441         |
|                             | <u>4,716,742</u>  | <u>7,066,484</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 2019 and 2018.

##### (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. Working Capital Management (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 control has 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 product delivery is not due within 12 months from the reporting date.

|                  | 31 Dec 2019<br>\$ | 31 Dec 2018<br>\$ |
|------------------|-------------------|-------------------|
| Unearned revenue | <b>72,375</b>     | 1,670,100         |

##### (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 2019 and 2018.

##### (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.

#### 4.6 Contract Liabilities

##### *Accounting Policies*

Contract liabilities are recognised originally at fair value and subsequently measured at amortised cost. Contract liabilities represents revenue that has been received by the Group per the Amended and Restated Garnet Offtake Agreement where control has not yet been transferred. Contract liabilities are recognised in accordance with the Group's revenue recognition policy (refer note 2.2).

|                      | 31 Dec 2019<br>\$ | 31 Dec 2018<br>\$ |
|----------------------|-------------------|-------------------|
| Contract liabilities | <b>18,099,115</b> | 18,098,880        |

##### (i) Fair values and credit risk

Due to the nature of the contract liability, the carrying values represent their respective fair values as at 31 December 2019.

##### (ii) Foreign exchange and interest rate risk

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

## Notes to the consolidated financial statements (continued)

### 4. Working Capital Management (continued)

### 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.

|                                                                       | 31 Dec 2019      | 31 Dec 2018      |
|-----------------------------------------------------------------------|------------------|------------------|
|                                                                       | \$               | \$               |
| <b>Current</b>                                                        |                  |                  |
| Long term borrowings – unsecured (6)                                  | 1,442,444        | -                |
| Amounts due under equipment acquisition agreements (1), (2), (4), (5) | 1,422,824        | 735,382          |
| Long term borrowings – secured (3)                                    | 746,510          | 1,542,346        |
|                                                                       | <b>3,611,778</b> | <b>2,277,728</b> |
| <b>Non-current</b>                                                    |                  |                  |
| Long term borrowings – unsecured (6)                                  | 2,877,396        | -                |
| Long term borrowings – secured (3)                                    | 170,581          | 704,189          |
| Amounts due under equipment acquisition agreements (1), (2), (4), (5) | 1,067,240        | 2,084,493        |
|                                                                       | <b>4,115,217</b> | <b>2,788,682</b> |

- (1) 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.
- (2) 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.

## Notes to the consolidated financial statements (continued)

### 5. Funding and Risk Management (continued)

#### 5.1 Interest bearing loans and borrowings (continued)

- (3) 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 US\$0.625 million principal owing at 31 December 2019.
- (4) The Group entered into Commercial Loans and Chattel Mortgages for motor vehicles. Under the terms of these agreements, the Group will become the owner of the motor vehicles on final payment under the agreements.
- (5) The Group entered into a Master Finance Lease to acquire mobile mining equipment. Under the terms of these agreements, the Group will become the owner of the mobile mining equipment on final payment under the agreements.
- (6) The Group entered into a Loan Agreement with the previous owners as a part of the acquisition of Skaland Graphite AS. The interest rate is NIBOR +2% and is repaid quarterly.

#### (a) Lease liability commitments

##### Accounting Policies

Refer to Note 1.8(b) for accounting policy for leases

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

|                                                  | 31 Dec 2019<br>\$ | 31 Dec 2018<br>\$ |
|--------------------------------------------------|-------------------|-------------------|
| Within one year                                  | 1,612,614         | 926,223           |
| Later than one year but no later than five years | 1,130,946         | 1,928,972         |
| Greater than 5 years                             | -                 | -                 |
| Minimum lease payments                           | 2,743,560         | 2,855,195         |
| Less: Future Finance Charges                     | (253,498)         | (443,479)         |
|                                                  | 2,490,062         | 2,411,716         |

Lease commitments includes contracted amounts for various plant and equipment with a written down value of \$2,706,338 (2018: \$2,959,377) 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.

## Notes to the consolidated financial statements (continued)

### 5. Funding and Risk Management (continued)

#### 5.2 Net finance costs (continued)

|                                                            | 31 Dec 2019<br>\$ | 31 Dec 2018<br>\$ |
|------------------------------------------------------------|-------------------|-------------------|
| <b>Finance income</b>                                      |                   |                   |
| Interest Income                                            | 128,103           | 122,378           |
| Total finance income                                       | 128,103           | 122,378           |
| <b>Finance costs</b>                                       |                   |                   |
| Interest paid to third parties                             | 228,241           | 186,751           |
| Net change in fair value of financial assets - derivatives | (258,893)         | 38,383            |
| Total finance costs                                        | (30,652)          | 225,134           |
| <b>Net finance income / (costs)</b>                        | <b>158,755</b>    | <b>(102,756)</b>  |

#### 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

|                 | 2019<br>Number of<br>shares | 2018<br>Number of<br>shares | 2019<br>\$ | 2018<br>\$ |
|-----------------|-----------------------------|-----------------------------|------------|------------|
| Ordinary shares |                             |                             |            |            |
| Fully paid      | 421,191,571                 | 421,091,571                 | 64,927,687 | 64,919,201 |

##### (ii) Movements in ordinary share capital

| Details                                  | Number of<br>shares | \$         |
|------------------------------------------|---------------------|------------|
| At 1 January 2019                        | 421,091,571         | 64,919,201 |
| Conversion of performance rights         | 100,000             | 8,486      |
| At 31 December 2019                      | 421,191,571         | 64,927,687 |
| Transaction costs arising on share issue | -                   | -          |
| At 31 December 2019                      | 421,191,571         | 64,927,687 |

## Notes to the consolidated financial statements (continued)

### 5. Funding and Risk Management (continued)

#### 5.3 Equity (continued)

##### (a) Contributed equity (continued)

##### (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.

##### (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<br>reserve | Financial<br>asset<br>revaluation<br>reserve | Foreign<br>currency<br>translation<br>reserve | Share<br>based<br>payment<br>reserve | Total        |
|----------------------------------------------------------------|--------------------|----------------------------------------------|-----------------------------------------------|--------------------------------------|--------------|
|                                                                | \$                 | \$                                           | \$                                            | \$                                   | \$           |
| At 1 January 2018                                              | 1,363,393          | -                                            | (15,108,264)                                  | 628,077                              | (13,116,794) |
| Share based payments                                           | -                  | -                                            | -                                             | 441,253                              | 441,253      |
| Transfer to retained earnings on expiry of<br>unlisted options | -                  | -                                            | -                                             | (201,273)                            | (201,273)    |
| Conversion of performance rights                               | -                  | -                                            | -                                             | (498,902)                            | (498,902)    |
| Exchange differences on translation of<br>foreign operations   | -                  | -                                            | (8,063,464)                                   | -                                    | (8,063,464)  |
| At 1 January 2019                                              | 1,363,393          | -                                            | (23,171,728)                                  | 369,155                              | (21,439,180) |
| Share based payments                                           | -                  | -                                            | -                                             | 261,810                              | 261,810      |
| Conversion of performance rights                               | -                  | -                                            | -                                             | (8,486)                              | (8,486)      |
| Exchange differences on translation of<br>foreign operations   | -                  | -                                            | (313,397)                                     | -                                    | (313,397)    |
| At 31 December 2019                                            | 1,363,393          | -                                            | (23,485,125)                                  | 622,479                              | (21,499,253) |

#### 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.

## Notes to the consolidated financial statements (continued)

### 5. Funding and Risk Management (continued)

#### 5.3 Equity (continued)

##### (b) Reserves (continued)

###### *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 and performance rights.

##### (c) Accumulated losses

|                                                       | 31 Dec 2019<br>\$ | 31 Dec 2018<br>\$  |
|-------------------------------------------------------|-------------------|--------------------|
| At 1 January                                          | (1,542,284)       | (5,488,768)        |
| Profit for the year                                   | 7,828,231         | 8,823,231          |
| Adjustment to accumulated losses per AASB 15 adoption | -                 | (1,246,942)        |
| Dividend distribution                                 | (3,839,471)       | (3,831,078)        |
| Transfer from reserves on expiry of unlisted options  | -                 | 201,273            |
| At 31 December                                        | <u>2,446,476</u>  | <u>(1,542,284)</u> |

##### (d) Non-controlling interest

|                       | 31 Dec 2019<br>\$ | 31 Dec 2018<br>\$ |
|-----------------------|-------------------|-------------------|
| At 1 January          | 113,639           | 113,639           |
| Movement for the year | -                 | -                 |
| At 31 December        | <u>113,639</u>    | <u>113,639</u>    |

#### 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.

## Notes to the consolidated financial statements (continued)

### 5. Funding and Risk Management (continued)

#### 5.4 Financial risk management (continued)

##### (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.

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 below:

| Risk                                | Exposure arising from                                                                                                                                                                                                                                           | Measurement                                       | Management                                                                                           |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|------------------------------------------------------------------------------------------------------|
| Market risk – foreign exchange risk | Future commercial transactions<br><br>Recognised financial assets and liabilities not denominated in USD                                                                                                                                                        | Cash flow forecasting<br><br>Sensitivity analysis | Foreign currency forwards and foreign currency options                                               |
| Market risk – interest rate risk    | The Company's long-term borrowings in South Africa are at fixed interest rates, therefore it is not exposed to changes in variable interest rates. The Company's long-term borrowings in Norway are at variable interest rates, subject to NIBOR interest rates | N/A                                               | N/A                                                                                                  |
| Market risk – price risk            | Investments in equity securities                                                                                                                                                                                                                                | Sensitivity analysis                              | N/A                                                                                                  |
| Market risk – commodity price risk  | Sale of products                                                                                                                                                                                                                                                | Cash flow forecasting<br><br>Sensitivity analysis | Monitoring the prevailing commodity prices and entering into longer term fixed price sales contracts |
| Credit risk                         | Cash and cash equivalents and trade and other receivables                                                                                                                                                                                                       | Aging analysis<br>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 risk management is predominantly controlled by the finance department ("Treasury") under policies approved by the Board of Directors. Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, commodity price risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Group manages foreign exchange risk through hedging the South African Rand and Australian Dollar using foreign currency forwards and foreign currency options in line with its Treasury Policy. The mark-to-market position of the Group's hedged position as at 31 December 2019 was:

| At 31 December 2019      | Value of Hedges contracted | Mark-to-market value of hedges | Mark-to-market hedge position |
|--------------------------|----------------------------|--------------------------------|-------------------------------|
|                          | US\$                       | US\$                           | US\$                          |
| South African Rand (ZAR) | 2,500,000                  | 2,559,378                      | 59,378                        |
| Australian Dollars (AUD) | 1,000,000                  | 1,011,829                      | 11,829                        |
| Total position           | 3,500,000                  | 3,571,207                      | 71,207                        |

## Notes to the consolidated financial statements (continued)

### 5. Funding and Risk Management (continued)

#### 5.4 Financial risk management (continued)

##### (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.

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), United States Dollar to Australian Dollars (AUD) and United States Dollar to Norwegian Kroner (NOK) were:

##### Sensitivity

|                                      | Impact on<br>post tax profit |              | Impact on other<br>components of equity |              |
|--------------------------------------|------------------------------|--------------|-----------------------------------------|--------------|
|                                      | 2019<br>US\$                 | 2018<br>US\$ | 2019<br>US\$                            | 2018<br>US\$ |
| USD/AUD exchange rate – increase 10% | 279,218                      | 424,975      | -                                       | -            |
| USD/AUD exchange rate – decrease 10% | (279,218)                    | (424,975)    | -                                       | -            |
| USD/ZAR exchange rate – increase 10% | 211,901                      | 2,775,789    | -                                       | -            |
| USD/ZAR exchange rate – decrease 10% | (211,901)                    | (2,775,789)  | -                                       | -            |
| USD/NOK exchange rate – increase 10% | (20,627)                     | -            | -                                       | -            |
| USD/NOK exchange rate – decrease 10% | 20,627                       | -            | -                                       | -            |

##### (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. Interest on loans in Skaland Graphite A.S. are variable and denominated in Norwegian Kroner (NOK). Based on the loans with variable interest rates the sensitivity of the Group's profits after tax for the year and equity at the reporting dates were:

##### Sensitivity

|                                            | Impact on<br>post tax profit |              | Impact on other<br>components of equity |              |
|--------------------------------------------|------------------------------|--------------|-----------------------------------------|--------------|
|                                            | 2019<br>US\$                 | 2018<br>US\$ | 2019<br>US\$                            | 2018<br>US\$ |
| Interest rate increase of 100 basis points | (8,113)                      | -            | -                                       | -            |
| Interest rate decrease of 100 basis points | 8,113                        | -            | -                                       | -            |

## Notes to the consolidated financial statements (continued)

### 5. Funding and Risk Management (continued)

#### 5.4 Financial risk management (continued)

##### (a) Market risk (continued)

##### (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 at fair value through profit or loss ("FVTPL"). The Group's investment in equity securities at FVTPL is \$706,046 (2018: \$674,751), which is monitored by the Board of Directors. Any investment in equity securities would require approval by the Board of Directors.

##### Sensitivity

|                       | Impact on<br>post tax profit |          | Impact on other<br>components of equity |      |
|-----------------------|------------------------------|----------|-----------------------------------------|------|
|                       | 2019                         | 2018     | 2019                                    | 2018 |
|                       | US\$                         | US\$     | US\$                                    | US\$ |
| Price increase of 10% | 49,423                       | 47,233   | -                                       | -    |
| Price decrease of 10% | (49,423)                     | (47,233) | -                                       | -    |

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.

The Group has two types of financial assets that are subject to the expected credit loss model:

- trade receivables for sales of inventory, and
- debt investments carried at amortised cost.

##### Trade receivables

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

## Notes to the consolidated financial statements (continued)

### 5. Funding and Risk Management (continued)

#### 5.4 Financial risk management (continued)

##### (a) Market risk (continued)

##### (iv) Credit risk (continued)

On that basis, the loss allowance as at 31 December 2019 was determined as follows for both trade receivables and contract assets:

| At 31 December 2019                       | Current   | More than 30 days past due | More than 60 days past due | More than 90 days past due | Total     |
|-------------------------------------------|-----------|----------------------------|----------------------------|----------------------------|-----------|
| Expected loss rate                        | 0%        | 0%                         | 0%                         | 0%                         |           |
| Gross carrying amount – trade receivables | 2,454,123 | 99,758                     | -                          | 74,096                     | 2,627,977 |
| Loss allowance                            | -         | -                          | -                          | -                          | -         |

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

##### Other financial assets at amortised cost

Other financial assets at amortised include loans to directors and employees of subsidiaries, deposits and other receivables.

##### (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 \$8,092,614 (2018: \$12,410,510). 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.

##### Financing arrangements

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.

On 4 October 2019, the Group acquired Skaland Graphite A.S. As part of the consideration the Group agreed to pay an amount to Leonhard Nilsen & Sønner AS of NOK37,986,514 over 5 years, paid in quarterly instalments. The interest is charged at NIBOR +2%.

On 4 October 2019, the Group acquired Skaland Graphite A.S. As part of the acquisition the Group consolidated the fair value of the loans from Innovation Norge. The borrowings at acquisition was NOK2,526,000. NOK1,000,000 is due in 2020, NOK1,500,000 is due in 2024 and NOK26,000 is due in 2020.

On 4 October 2019, the Group acquired Skaland Graphite A.S. As part of the acquisition the Group consolidated the fair value of the loans from Flogas. The borrowings at acquisition was NOK26,000 and is due in 2020.

## 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 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 cash flows | Carrying amount  |
|-------------------------------------------|------------------|---------------|------------------|----------|------------------------------|------------------|
| <b>31 December 2019</b>                   | \$               | \$            | \$               | \$       | \$                           | \$               |
| Trade and other receivables               | 8,027,372        | -             | -                | -        | 8,027,372                    | 8,027,372        |
| Trade and other receivables – non current | -                | -             | 1,513,268        | -        | 1,513,268                    | 1,513,268        |
| Derivatives – FVTPL                       |                  |               |                  |          |                              |                  |
| Inflow                                    | 3,571,207        | -             | -                | -        | 3,571,207                    | 71,207           |
| (Outflow)                                 | (3,500,000)      | -             | -                | -        | (3,500,000)                  | -                |
| <b>Total financial assets</b>             | <b>8,098,579</b> | <b>-</b>      | <b>1,513,268</b> | <b>-</b> | <b>9,611,847</b>             | <b>9,611,847</b> |

|                                           | < 6 months       | 6 – 12 months | 1 – 5 years    | 5+ years | Total contractual cash flows | Carrying amount  |
|-------------------------------------------|------------------|---------------|----------------|----------|------------------------------|------------------|
| <b>31 December 2018</b>                   | \$               | \$            | \$             | \$       | \$                           | \$               |
| Trade and other receivables               | 5,166,481        | -             | -              | -        | 5,166,481                    | 5,166,481        |
| Trade and other receivables – non current | -                | -             | 856,715        | -        | 856,715                      | 856,715          |
| Derivatives – FVTPL                       |                  |               |                |          |                              |                  |
| Inflow                                    | 2,579,045        | -             | -              | -        | 2,579,045                    | 79,045           |
| (Outflow)                                 | (2,500,000)      | -             | -              | -        | (2,500,000)                  | -                |
| <b>Total financial assets</b>             | <b>5,245,526</b> | <b>-</b>      | <b>856,715</b> | <b>-</b> | <b>6,102,241</b>             | <b>6,102,241</b> |

## 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 cash flows | Carrying amount   |
|-------------------------------------|------------------|------------------|------------------|----------|------------------------------|-------------------|
| <b>31 December 2019</b>             | \$               | \$               | \$               | \$       | \$                           | \$                |
| Trade and other payables            | 4,716,742        | -                | -                | -        | 4,716,742                    | 4,716,742         |
| Borrowings excluding finance leases | 1,409,394        | 779,560          | 3,047,977        | -        | 5,236,931                    | 5,236,931         |
| Lease liabilities                   | 960,453          | 462,371          | 1,067,240        | -        | 2,490,064                    | 2,490,064         |
| <b>Total financial liabilities</b>  | <b>7,086,589</b> | <b>1,241,931</b> | <b>4,115,217</b> | <b>-</b> | <b>12,443,737</b>            | <b>12,443,737</b> |

|                                     | < 6 months       | 6 – 12 months    | 1 – 5 years      | 5+ years | Total contractual cash flows | Carrying amount   |
|-------------------------------------|------------------|------------------|------------------|----------|------------------------------|-------------------|
| <b>31 December 2018</b>             | \$               | \$               | \$               | \$       | \$                           | \$                |
| Trade and other payables            | 7,066,484        | -                | -                | -        | 7,066,484                    | 7,066,484         |
| Borrowings excluding finance leases | 776,052          | 773,520          | 707,564          | -        | 2,257,136                    | 2,246,535         |
| Lease liabilities                   | 465,597          | 460,626          | 1,928,972        | -        | 2,855,195                    | 2,819,875         |
| <b>Total financial liabilities</b>  | <b>8,308,133</b> | <b>1,234,146</b> | <b>2,636,536</b> | <b>-</b> | <b>12,178,815</b>            | <b>12,132,894</b> |

##### (vi) Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

## 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)

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December 2019 and 31 December 2018:

|                                    | Level 1 | Level 2     | Level 3 | Total              |
|------------------------------------|---------|-------------|---------|--------------------|
| <b>31 December 2019</b>            | \$      | \$          | \$      | \$                 |
| <i>Financial assets</i>            |         |             |         |                    |
| Derivatives – FVTPL                | -       | 71,207      | -       | <b>71,207</b>      |
| Listed equity securities – FVTPL   | 24,545  | -           | -       | <b>24,545</b>      |
| Unlisted equity securities - FVTPL | -       | 681,501     | -       | <b>681,501</b>     |
| Total financial assets             | 24,545  | 752,708     | -       | <b>777,253</b>     |
| <i>Financial liabilities</i>       |         |             |         |                    |
| Borrowings                         | -       | (7,726,995) | -       | <b>(7,726,995)</b> |
| Total financial liabilities        | -       | (7,726,995) | -       | <b>(7,726,995)</b> |
| <b>31 December 2018</b>            | \$      | \$          | \$      | \$                 |
| <i>Financial assets</i>            |         |             |         |                    |
| Derivatives – FVTPL                | -       | 79,045      | -       | <b>79,045</b>      |
| Listed equity securities – FVTPL   | 24,689  | -           | -       | <b>24,689</b>      |
| Unlisted equity securities - FVTPL | -       | 650,062     | -       | <b>650,062</b>     |
| Total financial assets             | 24,689  | 729,107     | -       | <b>753,796</b>     |
| <i>Financial liabilities</i>       |         |             |         |                    |
| Borrowings                         | -       | (5,066,410) | -       | <b>(5,066,410)</b> |
| Total financial liabilities        | -       | (5,066,410) | -       | <b>(5,066,410)</b> |

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: 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.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

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.

## Notes to the consolidated financial statements *(continued)*

### 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.

##### ***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.

## Notes to the consolidated financial statements (continued)

### 6. Group structure (continued)

#### 6.1 Consolidated entities (continued)

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.

The Company, via its wholly owned subsidiary MRC Graphite (Norway) Pty Ltd ("MRCGN"), has a 90% interest in the issued capital in Skaland Graphite A.S. ("SKA"). Whilst the Group controls 90% 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 SKA, and also controls the Board of SKA. The Group considers that 100% of the economic benefits will flow to the group on the basis that there has been no contribution from the non-controlling interest. Therefore these financial statements include 100% of the results of SKA.

#### (i) Material subsidiaries

The Group's principal subsidiaries at 31 December 2019 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 |        |
|-------------------------------------------------------------------|----------------------------------------------|--------------------------------------|--------|------------------------------------------------------|--------|
|                                                                   |                                              | 2019 %                               | 2018 % | 2019 %                                               | 2018 % |
| 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                                              | Australia                                    | 100                                  | 100    | -                                                    | -      |
| MRC Exploration Australia Pty Ltd                                 | Australia                                    | 100                                  | 100    | -                                                    | -      |
| MRC Graphite (Norway) Pty Ltd <sup>(1)</sup>                      | Australia                                    | 100                                  | -      | -                                                    | -      |
| Skeleton Coast Resources (Pty) Ltd                                | Namibia                                      | 100                                  | 100    | -                                                    | -      |
| Skaland Graphite A.S. <sup>(2)</sup>                              | Norway                                       | 90                                   | -      | 10                                                   | -      |
| MRC Resources Proprietary Limited                                 | South Africa                                 | 100                                  | 100    | -                                                    | -      |
| Mineral Sands Resources Proprietary Limited                       | South Africa                                 | 50                                   | 50     | 50                                                   | 50     |
| Tormin Mineral Sands Proprietary Limited                          | South Africa                                 | 50                                   | 50     | 50                                                   | 50     |
| Nyati Titanium Eastern Cape Proprietary Limited                   | South Africa                                 | 100                                  | 100    | -                                                    | -      |
| MRC Metals Proprietary Limited                                    | South Africa                                 | 100                                  | 100    | -                                                    | -      |
| Skeleton Coast Mining (Pty) Ltd                                   | South Africa                                 | 100                                  | -      | -                                                    | -      |
| Transworld Energy and Minerals Resources (SA) Proprietary Limited | South Africa                                 | 56                                   | 56     | 44                                                   | 44     |
| Madan Rahjo Kanyab Company (Private Joint Stock)                  | Iran                                         | 100                                  | 100    | -                                                    | -      |
| Zamin Afzar Ofogh Company (Private Joint Stock)                   | Iran                                         | 90                                   | 90     | 10                                                   | 10     |
| Mineral Commodities (UK) Ltd                                      | United Kingdom                               | 100                                  | 100    | -                                                    | -      |

(1) MRC Graphite (Norway) Pty Ltd was incorporated on 15 May 2019

(2) Skaland Graphite AS was acquired on 4 Oct 2019

## 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 2019<br>\$ | 31 Dec 2018<br>\$ |
|-----------------------------|-------------------|-------------------|
| <b>Balance sheet</b>        |                   |                   |
| Current assets              | 9,937,240         | 3,285,437         |
| Non-current assets          | 1,653,004         | 60,958,480        |
| Total assets                | 11,590,244        | 64,243,917        |
| Current liabilities         | 1,419,841         | 49,620,117        |
| Non-current liabilities     | 146,583           | 99,024            |
| Total liabilities           | 1,566,424         | 49,719,141        |
| Net assets                  | 10,023,820        | 14,524,776        |
| <b>Shareholders' equity</b> |                   |                   |
| Issued capital              | 44,401,322        | 64,919,201        |
| Reserves                    | (34,981,725)      | (29,935,009)      |
| Accumulated losses          | 604,223           | (20,459,416)      |
| Total equity                | 10,023,820        | 14,524,776        |
| (Loss)/profit for the year  | (832,144)         | (2,164,488)       |

## Notes to the consolidated financial statements (continued)

### 6. Group structure (continued)

#### 6.3 Business combinations during the period

On 4 October 2019 the Group acquired 100% of the voting equity instruments of Skaland Graphite A.S., a company whose principal activity is mining and producing graphite. Post acquisition, 10% of the interest in Skaland is to be transferred to the facilitator of the transaction, BSG Mining LLC, an unrelated party to the Group, with the proportionate acquisition cost expected to be recouped by the Group. The purpose of the acquisition is to fast-track MRC to be the largest graphite miner in Europe, improving the Company's understanding of traditional graphite markets. Skaland also offers excellent geostrategic positioning to capitalise on the fastest growing electric vehicle market globally.

Details of the fair value of the identifiable assets and liabilities acquired, purchase consideration are as follows (note that fair value was not used as the measurement basis for assets and liabilities that require a different basis, which includes employee benefits):

|                             | Fair value<br>\$ |
|-----------------------------|------------------|
| Cash                        | 86,689           |
| Trade and other receivables | 127,603          |
| Inventories                 | 1,681,936        |
| Other investments           | 12,919           |
| Land & buildings            | 982,987          |
| Plant & equipment           | 1,083,064        |
| Mine development            | 6,032,998        |
| Trade and other payables    | (686,598)        |
| Borrowings                  | (430,341)        |
| Employee benefits           | (177,510)        |
| <b>Total net assets</b>     | <b>8,713,747</b> |

#### Fair value of consideration paid:

|                                     | \$               |
|-------------------------------------|------------------|
| Cash                                | 4,544,086        |
| Loan to Leonhard Nilsen & Sonner AS | 4,169,661        |
| <b>Total consideration</b>          | <b>8,713,747</b> |
| <b>Goodwill</b>                     | <b>-</b>         |

No goodwill was recognised in the business combination nor a gain from a bargain purchase. No acquisition costs arose as a result of the transaction.

The fair values of land & building and plant & equipment are provisional and subject to third party expert valuation, to take place in 2020, and will be restated as per allowances in AASB 3 *Business Combinations*. The identifiable assets fair value assessment involved significant judgement. There were no acquisitions in the year ended 31 December 2018.

The revenue and profit contribution to the Group from the date of acquisition were \$1,173,287 and \$422,513 respectively.

## 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 2019<br>\$ | 31 Dec 2018<br>\$ |
|------------------------------|-------------------|-------------------|
| <b>Current</b>               |                   |                   |
| Annual leave provision       | <b>661,266</b>    | 355,057           |
| <b>Non-current</b>           |                   |                   |
| Long service leave provision | <b>126,795</b>    | 99,024            |

#### 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. 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, and then amortised over 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.

##### **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.

## Notes to the consolidated financial statements (continued)

### 7. People (continued)

#### 7.2 Share based payments (continued)

##### a) Employee Options (continued)

No options were granted under the Plan in 2019.

Set out below are summaries of options under the Plan that vested in the financial year ended 31 December 2018:

| 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              | -                              | -                             |
| 07 Sept 2015 | 31 Mar 2018 | 20 cents               | 5.40 cents               | 1,000,000                        | -                       | -                         | -                         | 1,000,000              | -                              | -                             |
|              |             |                        |                          | 6,000,000                        | -                       | -                         | -                         | 6,000,000              | -                              | -                             |

The weighted average remaining contractual life of options outstanding at end of period is Nil years (2018: Nil 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 related to options for the year ended 31 December 2019 was \$Nil (2018: \$Nil).

##### 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 16<sup>th</sup> August 2017, the Board approved the issue of 2,000,000 Performance Rights to the former 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. These Performance Rights were fully exercised in 2018.

On 16<sup>th</sup> 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.

On 16<sup>th</sup> August 2017, the Board approved the issue of 450,000 Performance Rights to employees. 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. 250,000 of these Performance Rights have been exercised and 100,000 have been forfeited.

On 22<sup>nd</sup> May 2018, the Board approved the issue of 1,000,000 Performance Rights to Executives. These performance rights are exercisable on or before 31 May 2021, vesting at a rate of 333,333 per annum on 1 October 2018 to 2020 inclusive and upon the closing share price reaching \$0.20 and remaining at or above \$0.20 for a period of 30 consecutive trading days.

On 22<sup>nd</sup> May 2018, the Board approved the issue of 1,000,000 Performance Rights to Executives. These performance rights are exercisable on or before 25 June 2020, with 500,000 vesting on 25 June 2019 and 500,000 vesting on 25 June 2020 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 25<sup>th</sup> September 2018, the Board approved the issue of 1,000,000 Performance Rights to Executives. These performance rights are exercisable on or before 30 September 2020, with 500,000 vesting on 11 October 2019 and 500,000 vesting on 11 October 2020 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 28<sup>th</sup> May 2019, the Board approved the issue of 1,000,000 Performance Rights to Executives. These performance rights are exercisable on or before 14 May 2022, with 500,000 vesting on 14 May 2020 and 500,000 vesting on 14 May 2021 and upon the 30 Day Volume Weighted Average Price (VWAP) being at or above \$0.26.

On 28<sup>th</sup> May 2019, the Board approved the issue of 100,000 Performance Rights to employees. These performance rights are exercisable on or before 28 February 2023, with 33,333 vesting on 28 February 2020, 33,333 vesting on 28 February 2021 and 33,334 vesting on 28 February 2022 and upon the 30 Day Volume Weighted Average Price (VWAP) being at or above \$0.26. These Performance Rights were forfeited in 2019.

On 28<sup>th</sup> May 2019, the Board approved the issue of 150,000 Performance Rights to employees. These performance rights are exercisable on or before 28 February 2023, with 50,000 vesting on 28 February 2020, 50,000 vesting on 28 February 2021 and 50,000 vesting on 28 February 2022 and upon the 30 Day Volume Weighted Average Price (VWAP) being at or above \$0.26.

Set out below are summaries of all Performance Rights granted under the Plan and unexpired at 31 December 2019:

| 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 |
|--------------|--------------|----------------|--------------------------|---------------------------------|-------------------------|---------------------------|---------------------------|------------------------|--------------------------------|-------------------------------|
| 16 Aug 2017  | 31 May 2020  | Nil            | 11.8 cents               | 500,000                         | -                       | -                         | -                         | -                      | 500,000                        | 500,000                       |
| 16 Aug 2017  | 31 May 2021  | Nil            | 11.8 cents               | 300,000                         | -                       | 100,000                   | 100,000                   | -                      | 100,000                        | -                             |
| 22 May 2018  | 31 May 2021  | Nil            | 28.0 cents               | 1,000,000                       | -                       | -                         | -                         | -                      | 1,000,000                      | 500,000                       |
| 22 May 2018  | 1 Oct 2021   | Nil            | 28.0 cents               | 1,000,000                       | -                       | -                         | -                         | -                      | 1,000,000                      | 666,666                       |
| 25 Sept 2018 | 30 Sept 2021 | Nil            | 13.6 cents               | 1,000,000                       | -                       | -                         | -                         | -                      | 1,000,000                      | 500,000                       |
| 28 May 2019  | 14 May 2022  | Nil            | 13.4 cents               | -                               | 1,000,000               | -                         | -                         | -                      | 1,000,000                      | -                             |
| 28 May 2019  | 28 Feb 2023  | Nil            | 13.2 cents               | -                               | 100,000                 | -                         | 100,000                   | -                      | -                              | -                             |
| 28 May 2019  | 28 Feb 2023  | Nil            | 13.2 cents               | -                               | 150,000                 | -                         | -                         | -                      | 150,000                        | -                             |
|              |              |                |                          | 3,800,000                       | 1,250,000               | 100,000                   | 200,000                   | -                      | 4,750,000                      | 2,166,666                     |

Set out below are summaries of all Performance Rights granted under the Plan and unexpired at 31 December 2018:

| 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 2019  | Nil            |                          |                                 |                         |                           |                           |                        |                                |                               |
| 16 Aug 2017  | 31 May 2020  | Nil            | 11.3 cents               | 4,000,000                       | -                       | 4,000,000                 | -                         | -                      | -                              | -                             |
| 16 Aug 2017  | 31 May 2021  | Nil            | 11.8 cents               | 2,000,000                       | -                       | 2,000,000                 | -                         | -                      | -                              | -                             |
| 16 Aug 2017  | 31 May 2020  | Nil            | 11.8 cents               | 500,000                         | -                       | -                         | -                         | -                      | 500,000                        | 500,000                       |
| 16 Aug 2017  | 31 May 2021  | Nil            | 11.8 cents               | 450,000                         | -                       | 150,000                   | -                         | -                      | 300,000                        | -                             |
| 22 May 2018  | 31 May 2021  | Nil            | 28.0 cents               | -                               | 1,000,000               | -                         | -                         | -                      | 1,000,000                      | -                             |
| 22 May 2018  | 1 Oct 2021   | Nil            | 28.0 cents               | -                               | 1,000,000               | -                         | -                         | -                      | 1,000,000                      | 333,333                       |
| 25 Sept 2018 | 30 Sept 2021 | Nil            | 13.6 cents               | -                               | 1,000,000               | -                         | -                         | -                      | 1,000,000                      | -                             |
|              |              |                |                          | 6,950,000                       | 3,000,000               | 6,150,000                 | -                         | -                      | 3,800,000                      | 833,333                       |

##### Fair value of Performance Rights granted

The assessed fair value at grant date of the Performance Rights issued during the period ended 31 December 2019 was determined using a trinomial option pricing model that takes into account the performance conditions (e.g. share price reaching A\$0.20 per share for five consecutive days), 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 related to performance rights for the period ended 31 December 2019 was \$261,810 (2018: \$441,253).

## Notes to the consolidated financial statements (continued)

### 7. People (continued)

### 7.2 Share based payments (continued)

#### b) Performance Rights (continued)

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

|     |                                         |             |             |             |             |             |              |             |             |             |
|-----|-----------------------------------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|
| (a) | Number of Rights issued                 | 2,000,000   | 500,000     | 450,000     | 1,000,000   | 1,000,000   | 1,000,000    | 1,000,000   | 100,000     | 150,000     |
| (b) | Exercise price (AUD)                    | 0 cents     | 0 cents     | 0 cents     | 0 cents     | 0 cents     | 0 cents      | 0 cents     | 0 cents     | 0 cents     |
| (c) | Share price barrier (AUD)               | 20.0 cents  | 20.0 cents  | 20.0 cents  | 20.0 cents  | 20.0 cents  | 20.0 cents   | 26.0 cents  | 26.0 cents  | 26.0 cents  |
| (d) | 5 day VWAP of underlying security       | 13.5 cents  | 13.5 cents  | 13.5 cents  | 28.0 cents  | 28.0 cents  | 17.5 cents   | -           | -           | -           |
| (e) | 30 day VWAP of underlying security      | -           | -           | -           | -           | -           | -            | 26.0 cents  | 26.0 cents  | 26.0 cents  |
| (f) | Grant date                              | 16 Aug 2017 | 16 Aug 2017 | 16 Aug 2017 | 22 May 2018 | 22 May 2018 | 25 Sept 2018 | 28 May 2019 | 28 May 2019 | 28 May 2019 |
| (g) | Risk-free interest rate                 | 1.98%       | 1.98%       | 1.98%       | 2.20%       | 2.20%       | 2.15%        | 1.12%       | 1.12%       | 1.12%       |
| (h) | Expiry date                             | 31 May 2020 | 31 May 2020 | 31 May 2021 | 31 May 2021 | 1 Oct 2021  | 30 Sept 2021 | 14 May 2022 | 14 May 2022 | 14 May 2022 |
| (i) | Share price at grant date (AUD)         | 13.5 cents  | 13.5 cents  | 13.5 cents  | 28.0 cents  | 28.0 cents  | 17.5 cents   | 19.5 cents  | 19.5 cents  | 19.5 cents  |
| (j) | Expected price volatility of the shares | 90%         | 90%         | 90%         | 85%         | 85%         | 85%          | 85%         | 85%         | 85%         |
| (k) | Expected dividend yield                 | 8%          | 8%          | 8%          | 5.67%       | 5.67%       | 7.6%         | 6.67%       | 6.67%       | 6.67%       |

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.

## 7. 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 2019 and 31 December 2018 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 2019      | 31 Dec 2018      |
|------------------------------|------------------|------------------|
|                              | \$               | \$               |
| Short-term employee benefits | 1,805,174        | 1,948,747        |
| Post-employment benefits     | 78,743           | 80,217           |
| Long-term benefits           | -                | -                |
| Share-based payments         | 195,923          | 447,457          |
|                              | <b>2,079,840</b> | <b>2,476,421</b> |

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

##### (ii) 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 2019:

- Provision of executive services

The amount paid by the Company to MSCS for the year ended 31 December 2019 was \$208,657 (2018: \$224,340). This is considered to be an arm's length commercial consultancy contract at normal commercial rates. This amount is included in Mark Caruso's salary in the Remuneration Report.

- Provision of office space

The amount paid by the Company to MSCS for the year ended 31 December 2019 was \$143,851 (2018: \$148,625). This is considered to be an arm's length commercial rent. There is a formal lease in place.

- Provision of technical staff

The amount paid by the Company to MSCS for the year ended 31 December 2019 was \$280,715 (2018: \$236,880). 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 2019 was \$131,340 (2018: \$337,253). The amounts payable have been in respect of telecommunication charges and miscellaneous payments made by MSCS on behalf of the Company. The amount paid in 2018 included the acquisition of a new vehicle for the Executive Chairman. The amounts 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)

##### (iii) Transactions with other related parties (continued)

Ross Hastings, one of the Directors, has provided consulting services to one of the Company's projects during the year ended 31 December 2018. MR Hastings ceased as a Director on 30 May 2019. The amount paid by the Company to Ross Hastings for the year ended 31 December 2019 was \$Nil (2018: \$8,209). 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 2019. The amount paid by the Company to Hastings Bell Pty Ltd for the year ended 31 December 2019 was \$157,352 (2018: \$305,734). This is considered to be an arm's length commercial consultancy contract at normal commercial rates.

Shepstone and Wylie, a company associated with Debbie Ntombela, one of the Directors from 28 August 2019, has provided legal services to the Company during 2019. This amount paid by the Company to Shepstone and Wylie for the year ended 31 Dec 2019 was \$11,292.

##### (iii) 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 2019<br>\$ | 31 Dec 2018<br>\$ |
|------|-------------------|-------------------|
| MSCS | 53,463            | 126,284           |

### 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 ZAR2,628,000 (US\$187,551) (2018: ZAR2,628,000 (US\$182,551)).

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 De Punt Prospecting Right Application for an amount of ZAR320,000 (US\$22,779) (2018: ZAR320,000 (US\$22,228)).

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 ZAR1,474,989 (US\$104,994) (2018: ZAR1,474,989 (US\$102,458)).

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 Prospecting Rights for an amount of ZAR400,000 (US\$28,473) (2018: ZAR400,000 (US\$27,786)).

###### Guarantees

Guardrisk has issued a Guarantee, in favour of the South African Department of Mineral Resources, in respect of MSR's obligations under the expanded Tormin Mining Rights for an amount of ZAR15,200,000 (US\$1,081,981) (2018: Nil).

## Notes to the consolidated financial statements (continued)

### 8. Other (continued)

#### 8.1 Contingent assets and contingent liabilities (continued)

##### *Subordination of Shareholders Loan*

With effect from 26<sup>th</sup> March 2015, MRC Resources Proprietary Limited ("MRCR") has subordinated ZAR90,000,000 (US\$ 6,406,469) (2018: ZAR90,000,000 (US\$ 6,251,746)) 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 26<sup>th</sup> March 2015, MRCR has provided a surety to FirstRand Bank Limited of ZAR45,000,000 (US\$ 3,203,235) (2018: ZAR45,000,000 (US\$3,125,873)) for the due payment by MSR of all monies owed to FirstRand Bank Limited.

With effect from 15th September 2016, MSR has provided a surety to FirstRand Bank Limited of ZAR4,614,788 (US\$ 328,494) (2018: ZAR4,614,788 (US\$320,561)) for the due payment by Z Square M.P. Empowerment Company (Pty) Ltd of all monies owed to FirstRand Bank Limited.

##### *Others*

In the first half of 2019 the Company received a letter of demand for up to ZAR32,268,000 (US\$2,296,933) plus penalty interest of ZAR4,307,083 (US\$306,591), total ZAR36,575,083, relating to DFR claimed from its mining activities over several years. The Company is of the view, based upon independent legal advice obtained, the Company has been compliant with the respective legislation and therefore the Company does not consider it had a present obligation with respect to this claim. Accordingly, no provision or liability in relation to the claim was recognised on the date of the letter of demand in the financial statements. The Company will be pursuing legal proceedings and is confident in defending the claim.

Other than those mentioned above, there have been no other changes to contingent assets or liabilities since 31 December 2019.

#### 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 ZAR14,000,000 loan from dividend distributions that it will receive in the future from MSR.

#### 8.3 Events since the end of the financial year

There have been no material matters arising subsequent to the end of the financial year.

## Notes to the consolidated financial statements (continued)

### 8. Other (continued)

#### 8.4 Remuneration of auditors

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

|                                                                            | 31 Dec 2019<br>\$ | 31 Dec 2018<br>\$ |
|----------------------------------------------------------------------------|-------------------|-------------------|
| <b>Audit services</b>                                                      |                   |                   |
| <i>Audit and review of financial reports</i>                               |                   |                   |
| BDO Audit (WA) Pty Ltd                                                     | 86,554            | 57,391            |
| BDO Johannesburg South Africa                                              | 30,440            | 14,319            |
|                                                                            | <u>116,994</u>    | <u>71,710</u>     |
| <b>Non-audit services</b>                                                  |                   |                   |
| <i>Taxation, advisory and company secretarial (South African entities)</i> |                   |                   |
| BDO advisory                                                               | 5,564             | -                 |
| BDO Tax (WA) Pty Ltd                                                       | -                 | 16,116            |
| BDO Johannesburg South Africa                                              | 1,034             | 8,830             |
|                                                                            | <u>6,598</u>      | <u>24,946</u>     |

#### 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 2019.

A number of new standards, amendments to standards and interpretations are effective for annual period beginning on or after 1 January 2020, and have not been applied in preparing these consolidated financial statements. The most significant of these are:

- IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (Amendment – Definition of Material)
- IFRS 3 *Business Combinations* (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting

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 2019 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 28<sup>th</sup> day of February 2020

## 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 2019, the consolidated income statement, the consolidated statement of other 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 2019 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.

## Accounting for the acquisition of Skaland Graphite AS

| <i>Key audit matter</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <i>How the matter was addressed in our audit</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>During the year ended 31 December 2019, the Group completed the acquisition of Skaland Graphite AS. As outlined in note 6.3 of the financial report the acquisition accounting remains provisional as permitted by Australian Accounting Standards.</p> <p>Accounting for the acquisition of a business can be complex and accounting standards required the Group to identify all assets and liabilities of the newly acquired business and estimate the fair value of each item.</p> <p>This is a key audit matter given the complexity of business combinations and significant judgement and estimation involved in assessing the fair value of assets and liabilities acquired.</p> | <p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"><li>• reviewing the share purchase agreement to understand the key terms and conditions and evaluating management's application of the relevant Australian Accounting Standards;</li><li>• evaluating the Group's determination of the purchase consideration with reference to the underlying share purchase agreement and cash consideration paid;</li><li>• agreeing and substantiating assets and liabilities recognised to supporting documentation;</li><li>• evaluating the methodology and assumptions utilised to identify and determine the fair value of the assets and liabilities acquired; and</li><li>• assessing the appropriateness of related disclosures in note 6.3 of the financial report.</li></ul> |

## Existence and Valuation of Inventory

| <i>Key audit matter</i>                                                                                                                                                                                                                                                                                                        | <i>How the matter was addressed in our audit</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Note 4.3 of the financial report discloses the carrying value of the Group's inventory.</p> <p>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.</p> | <p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> <li>• BDO network component auditors attending inventory counts at the Tormin mine site and counting a sample of inventory items and comparing the quantities/volumes counted to the quantities/volumes recorded;</li> <li>• BDO network component auditors observing for potential obsolete or damaged items;</li> <li>• obtaining and reviewing third party survey reports 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;</li> <li>• reviewing management's inventory model which allocates mining costs to finished product and assessing the methodology and comparing to the accounting policy adopted by the Group;</li> <li>• obtaining third party confirmation for inventory held at external warehouses;</li> <li>• re-performing the calculation and reconciling inputs used in the inventory model to survey results, production reports, mining costs and sales contracts;</li> <li>• testing a sample of finished product to assess whether they were recorded at the lower of cost and net realisable value; and</li> <li>• assessing the adequacy of the related disclosures in Note 4.3 to the financial report.</li> </ul> |

### **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 2019, 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](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 28 to 35 of the directors' report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of Mineral Commodities Ltd, for the year ended 31 December 2019, complies with section 300A of the *Corporations Act 2001*.

### **Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO Audit (WA) Pty Ltd**

A handwritten signature in black ink, appearing to read 'Glyn O'Brien', is written over a faint, stylized 'BDO' logo.

**Glyn O'Brien**

**Director**

Perth, 28 February 2020