



MC Mining Limited

Previously Coal of Africa Limited
(Incorporated and registered in Australia)
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ANNOUNCEMENT

30 September 2020

RESULTS FOR THE FULL YEAR ENDED 30 JUNE 2020

MC Mining Limited ("**MC Mining**" or the "**Company**") is pleased to provide its audited financial statements for the year ended 30 June 2020 (the "**Period**"). All figures are denominated in United States dollars unless otherwise stated and the full report is available on the Company's website, www.mcmining.co.za.

Highlights

- No fatalities (FY2019: nil) and nine lost-time injuries ("**LTIs**") (FY2019: four LTIs) during the 12 months;
- The South African Government issued directives to contain the spread of the COVID-19 virus, instituting a national lockdown (the "**Lockdown**") from 26 March 2020 with restrictions easing during May and June 2020;
- The Uitkomst metallurgical and thermal colliery ("**Uitkomst**" or "**Uitkomst Colliery**") produced 431,354 tonnes ("**t**") (FY2019: 472,647t) of run-of-mine ("**ROM**") coal during the Period;
- The colliery sold 254,193t (FY2019: 309,401t) of coal, generating sales revenue of \$17.2 million (FY2019: \$26.4 million);
- Uitkomst's average revenue per tonne declined 20% to \$65/t (FY2019: \$81/t) following 22% lower year-on-year API4 prices;

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Chairman Bernard R. Pryor **Acting CEO** Brenda Berlin

Non-executive directors Andrew D Mifflin, Khomotso B. Mosehla, Shangren Ding, An Chee Sin, Brian H Zhen, Sebastiano Randazzo

- Production costs per saleable tonne reduced by 16% to \$63/t (FY2019: \$75/t), due to successful cost containment measures as well as a 10% weakening of the ZAR:US\$ exchange rate;
- New term-loan facility of R245 million (\$17 million) from the Industrial Development Corporation of South Africa Limited ("**IDC**"), the initial step in the composite debt and equity funding package for the construction of Phase 1 of the Makhado hard coking coal project ("**Makhado Project**" or "**Makhado**");
- COVID-19 resulted in delays to the conclusion of the Makhado Phase 1 composite debt/equity funding initiatives and these are expected to be completed in H2 CY2020;
- The Vele semi-soft coking coal colliery ("**Vele Colliery**") remained on care and maintenance and the colliery's existing processing plant will be modified as part of Phase 1 of the Makhado Project; and
- The South African Department of Mineral Resources and Energy ("**DMRE**") granted a Mining Right ("**MR**") for the Generaal coking and thermal coal project, one of the three projects comprising the Company's longer-term Greater Soutpansberg Project ("**GSP**").

Salient corporate features

- The R120 million (\$6.9 million) first tranche of the existing IDC loan due to be repaid with interest in May 2020 was restructured, delaying repayment until November 2020;
- Uitkomst increased its ABSA Bank Limited ("**ABSA**") primary lending facility from R20 million (\$1.1 million) to R40 million (\$2.3 million) to cover increased working capital requirements following the Lockdown;
- Full and final settlement of the deferred consideration due to Pan African Resources Plc for the acquisition of Pan African Resources Coal Holdings, the owner of the Uitkomst Colliery; and
- Ms Brenda Berlin was appointed as Acting Chief Executive Officer following the resignation of Mr David Brown.

Coal markets

- Average hard coking coal (“**HCC**”) prices declined 32% following the slowing in the global economy due to the COVID-19 pandemic; and
- Thermal coal prices also experienced a significant decline during FY2020 with average prices 22% lower than the prior year due to lower demand as a result of the pandemic.

Financial review

- Operating cash flows of \$1.1 million generated by the Uitkomst Colliery;
- Contributing to the loss for the year before tax of \$12.9 million were non-cash charges of \$4.7 million including:
 - net impairment expense of \$1.3 million;
 - depreciation and amortisation of \$2.6 million;
 - share based payment expense of \$0.4 million;
 - unrealised foreign exchange loss of \$0.4 million; and
- Total unrestricted cash balances at year-end of \$2.7 million before the utilised ABSA facility of \$2.2 million.

Subsequent events

- The existing IDC loan agreement was restructured, resulting in the Company being entitled to drawdown R40 million (\$2.3 million) of the existing facility;
- Completion of an equity raise for a collective R15 million (\$0.9 million);
- Conclusion of a subscription agreement with Columbia Skies Holdings (Pty) Limited for the issue of new MC Mining shares for an amount of R10 million (\$0.6 million); and
- Finalisation of the sale of surplus Vele Colliery of land and buildings classified as assets held for sale at 30 June 2020.

Brenda Berlin, Acting CEO commented:

“The spread of COVID-19 in South Africa in CY2020 has had significant adverse effects and resulted in the Company, its employees and contractors having to adapt to new operating environments. MC Mining has followed government recommendations and implemented measures to identify and minimise the risk of COVID-19 transmission on our sites.

MC Mining made significant progress on its strategy prior to the Lockdown. The most notable being the conclusion of a new R245 million (\$17 million) loan from the IDC, the initial step in the Makhado Phase 1 composite debt/equity funding process. The Company also implemented initiatives that resulted in improvements in the Uitkomst Colliery production profile. Unfortunately, the emergence of COVID-19 delayed the completion of the Makhado Phase 1 funding process and led to the Uitkomst Colliery being placed on care and maintenance.

Notwithstanding COVID-19 consequences, the Company has, however, secured in-principle agreement for an additional \$14 million and hopes to be able to conclude the remaining \$9 million Phase 1 funding requirement in H2 CY2020, allowing for construction to commence in Q1 CY2021. The development of the Makhado Project will result in MC Mining being the pre-eminent South African producer of hard coking coal, a key ingredient contributing to the manufacture of steel and a commodity that trades at a significant premium to thermal coal. The two phases of the Makhado Project have a combined life-of-mine in excess of 46 years and the project's long-term viability is supported by forecast economic development and urbanisation, driving increases in per capita steel usage.

The changes implemented at Uitkomst early in the Period had pleasing results and ROM coal production at the half-year was 11% ahead of the comparative six months in FY2019. This measure had increased to 13% at the end of February 2020 prior to the declaration of the March 2020 Lockdown. The increase in production was accompanied by a reduction in mining expenses resulting from cost controls implemented at the colliery. Uitkomst has faced challenging trading conditions due to the Lockdown with key customers experiencing operational constraints. I am hopeful that the improved pricing trends that commenced in September will continue as global economic activity recovers."

Review of Operations

Uitkomst Colliery (70% owned)

The Uitkomst Colliery is a high-grade coal deposit with metallurgical and thermal applications and reported nine LTIs (FY2019: four LTIs) during the Period. The colliery compiled a safety

strategy in conjunction with its employees during FY2020 and also completed a re-training programme with emphasis on hazard identification.

The Lockdown resulted in the Uitkomst Colliery being placed on care and maintenance on 27 March 2020 with only essential activities undertaken at site. Limited activities recommenced on 4 May 2020 utilising 50% of labour capacity and full production only resumed at the end of June 2020 with customer order levels normalising one month later.

Revised mining cycles, changes in mine management and optimisation initiatives implemented in H1 FY2020 resulted in Uitkomst's ROM coal production improving by 11% on the comparative period in FY2019 (262,696t vs. 237,715t). With the declaration of the Lockdown during March, Uitkomst did not produce any coal in April and the colliery's ROM coal production for the 12 months was 9% lower than the prior year (431,354t vs. 485,113t). No ROM coal was purchased from third parties due to supply contracts expiring previously (FY2019: 12,466t).

The majority of Uitkomst's customers also suspended operations, adversely impacting sales, with 228,206t (FY2019: 295,051t) derived from ROM coal sold during the Period. Uitkomst completed modifications to its processing plant during H2 FY2019, allowing for the production of an additional high ash, coarse discard coal and the sales of this type of coal was 25,987t (FY2019: 8,315t).

Due to the 22% year-on-year decline in average API4 coal prices, revenue per tonne reduced by 20%. The colliery has a Rand denominated cost base and production costs benefited from the implementation of cost control measures as well as the 10% weakening of the Rand against the US dollar during the Period.

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

	FY2020	FY2019	%Δ
<i>Production tonnages</i>			
Uitkomst ROM (t)	431,354	472,647	(9%)
Purchased ROM to blend (t)*	-	12,466	(100%)
	431,354	485,113	(11%)

	FY2020	FY2019	%Δ
Sales tonnages			
Own ROM (t)	228,206	295,051	(23%)
Middlings sales	25,987	8,315	213%
Purchased ROM to wash or blend (t)*	-	6,035	(100%)
	254,193	309,401	(18%)
Financial metrics			
Revenue/t(\$)	65.15	81.39	(20%)
Production costs/saleable tonnes (\$)^	63.01	74.83	(16%)

*contract completed

^all costs are Rand based

Makhado Hard Coking Coal Project (69% owned)

The fully permitted Makhado Project recorded no LTIs during the Period (FY2019: nil).

The Makhado Project will be developed in phases, reducing execution risk and capital expenditure while ensuring scalability. Both phases have compelling returns. Phase 1 will produce approximately 3.0 million tonnes per annum (“**Mtpa**”) of ROM coal that will be crushed, screened and scalped at Makhado. The resultant 2.0Mtpa of scalped ROM coal will be transported to the existing Vele Colliery for final processing, yielding approximately 0.54Mtpa of HCC and 0.57Mtpa of an export quality thermal coal by-product. Phase 2 is expected to commence in *circa* CY2023, funding and market dependent, and will result in 4.0Mtpa of ROM coal, producing approximately 1.7Mtpa of saleable HCC and thermal coal.

The Company anticipates the completion of the composite debt/equity funding process in Q4 CY2020 with Phase 1’s nine-month construction period commencing in Q1 CY2021 and first sales in month ten.

MC Mining previously signed agreements for approximately 85% of the Phase 1 HCC and 100% of the thermal coal by-product and has made significant progress on the Phase 1 composite debt/equity funding during the Period. The initial step was the signature of a binding agreement with the IDC for a new R245 million (\$17 million) facility. The Company has also secured in-principle agreements for a further \$14 million in funding that is subject to agreement of final documentation. MC Mining is also in significantly advanced discussions with potential

equity funders for the remaining \$9 million prior to commencing with construction of Phase 1 of the Makhado Project.

Vele Coking and Thermal Coal Colliery (100% owned)

The Vele Colliery remained on care and maintenance and no LTIs were recorded during the Period (FY2019: nil).

The colliery has all the regulatory approvals required to recommence operations and the existing processing plant will be modified as part of Phase 1 of the Makhado Project. These modifications include circuits to capture the fine coal fraction and will facilitate the simultaneous production of two products, namely HCC and a thermal coal by-product. The Company anticipates that, following the nine-year Makhado Phase 1 life-of-mine in *circa* 2029, the Vele Colliery will be ideally positioned to potentially supply semi-soft coking coal and thermal coal to the government gazetted Limpopo Special Economic Zone.

Greater Soutpansberg Project (74% owned)

The GSP recorded no LTIs during the 12 months (FY2019: nil).

The exploration and development of the three GSP areas, namely Chapudi, Mopane and Generaal, is the catalyst for MC Mining's long-term growth. The Company applied for MRs for the three project areas during 2013 and the Chapudi Project MR was granted in December 2018 and was subsequently appealed. The DMRE granted the Generaal MR during the Period and the Company is hopeful that the Mopane MR will be granted during FY2021.

Coal pricing

The spread of the COVID-19 pandemic resulted in a reduction in manufacturing activity as well as demand for energy, and metallurgical and thermal coal prices declined significantly. The FY2020 average HCC price was 32% (\$139/t vs. \$205/t) lower than the prior year while average thermal coal prices declined by 22% (\$68/t vs. \$87/t). These markets have started to show signs of recovery and HCC traded above \$130/t towards the end of September 2020 while API4 prices have improved from \$53/t in May 2020 to above \$60/t in Q1 FY2021.

Financial review

The loss for the Period from continuing operations decreased to \$12.0 million (8.41 US cents per share) compared to \$33.7 million or 23.72 US cents per share for the prior corresponding period.

The loss for the Period includes:

- Revenue from Uitkomst declined to \$17.2 million (FY2019: \$26.4 million) due to an 18% reduction in Uitkomst coal sales due to COVID-19 as well as a 22% decline in average API4 coal prices;
- Lower coal volumes, cost savings initiatives and a weaker ZAR:US\$ exchange rate resulted in cost of sales decreasing from FY2019's \$25.4 million to \$18.2 million, yielding a gross loss of \$1.1 million (FY2019: gross profit of \$1.0 million);
- The impairment of the carrying value of non-core subsidiaries resulted in a non-cash net impairment expense of \$1.3 million (FY2019: \$21.9 million);
- A reduction in the number of employees, particularly corporate staff, as well as the 'no work, no pay' policy implemented due to the Lockdown, resulted in administrative employee expenses declining 20% to \$3.9 million (FY2019: \$4.9 million);
- The ZAR:US\$ exchange rate was increasingly volatile during the Period and the Company recorded a net foreign exchange loss of \$0.4 million (FY2019: gain of \$0.2 million) due to borrowings and payment of the final Pan African Resources deferred consideration. The Company also changed its functional currency from Australian dollars to South African rand from 1 July 2019 and the translation of inter-group loan balances also contributed;
- Net interest expense arising from borrowings and finance leases reduced to \$2.9 million (FY2019: \$4.6 million).

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

Authorised by

Brenda Berlin

Acting Chief Executive Officer

This announcement has been approved by the Company's Disclosure Committee.
This announcement is inside information for the purposes of Article 7 of Regulation 596/2014.
All figures are in South African rand or United States dollars unless otherwise stated.

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Investec Bank Limited is the nominated JSE Sponsor

About MC Mining Limited:

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

Forward-looking statements

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