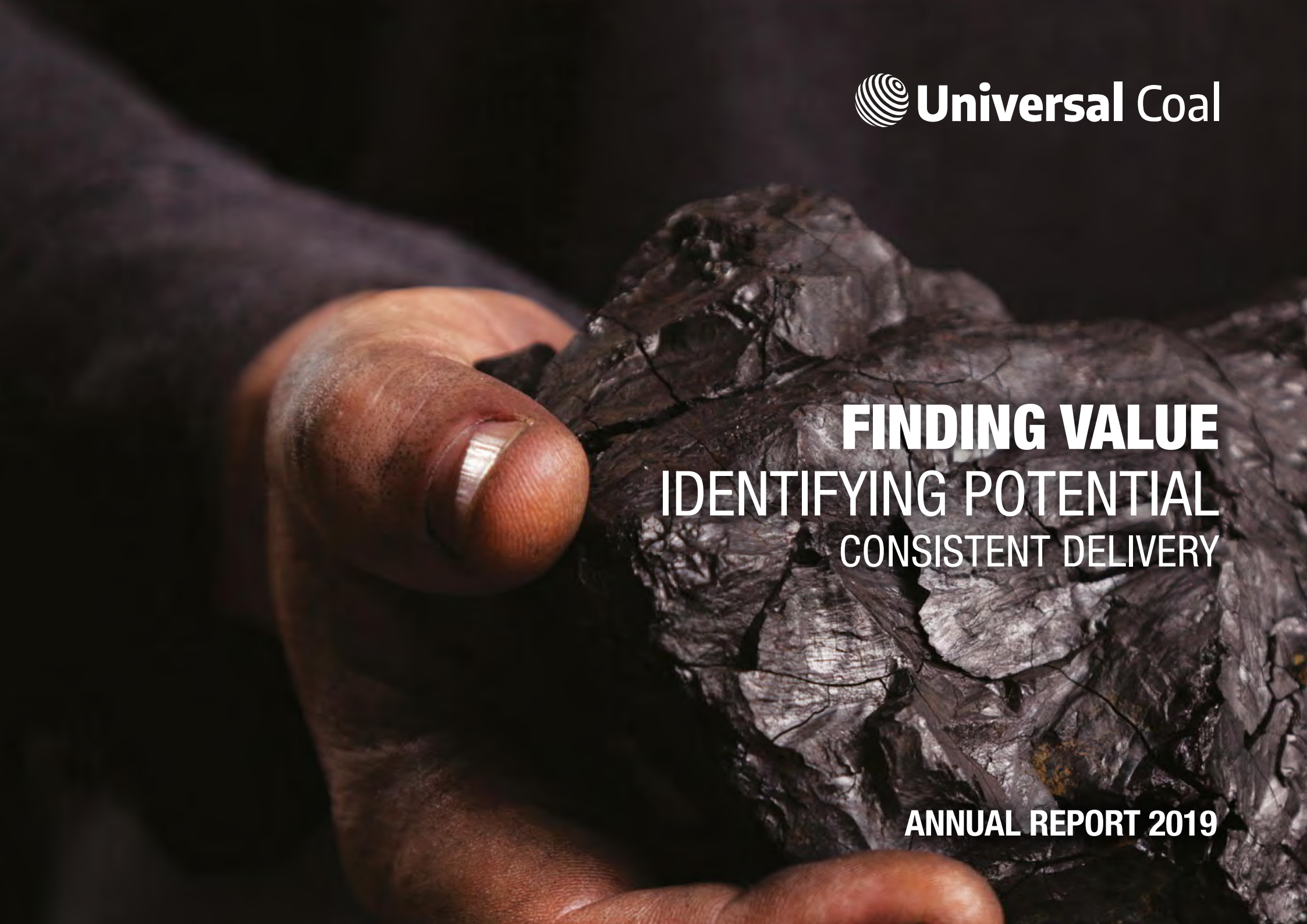

Universal Coal

FINDING VALUE
IDENTIFYING POTENTIAL
CONSISTENT DELIVERY

ANNUAL REPORT 2019

ABOUT THIS REPORT

This annual report covers Universal Coal Plc's (Universal Coal, Universal or the Company) results and those of its subsidiaries for the financial year ended 30 June 2019 and includes comparative data.

The report is our primary report to shareholders and presents a concise view of the Company, its performance and strategy with readers directed to our website – www.universalcoal.com – for corporate governance and additional information. The aim of the report is to provide meaningful and transparent information to enable investors and other stakeholders to make an informed assessment of Universal Coal and its prospects, our impacts and the sustainable value we create. The Company is incorporated and domiciled in the United Kingdom and all monetary values in this report are given in Australian dollar (A$) unless otherwise stated.

Universal Coal is committed to building a sustainable mid-tier coal mining company by strengthening the Company's portfolio of coal exploration, development and mining assets and realising their full growth potential thereby providing shareholders with exposure to thermal and coking coal assets. **The Company remains committed to empowering previously disadvantaged members of our host communities and works tirelessly to eliminate and minimise any negative environmental impacts associated with mining.**

KEY FEATURES

Sales volume

42% ^

Revenue

37% ^

EBITDA

36% ^

CONTENTS

Responsibility and preparation

The Directors are responsible for preparing an annual report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and in accordance with the provisions of the Companies Act, 2006. The Directors are also required to prepare financial statements in accordance with the rules of the Australian Securities Exchange (ASX).

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Scan this QR code to download the PDF of Universal Coal's report or alternatively visit the Company's website at www.universalcoal.com

HIGHLIGHTS OF THE YEAR

CONSISTENT DELIVERY

against guidance, driven by organic growth and timely, value accretive acquisitions

A$98.2 million
Group EBITDA
for 2019

Sales 2019
6.7Mt
(3.8Mt attributable)

Measured Resources
676.45Mt

Reserves
147.24Mt

Strong
customer demand
and long-term offtake contracts in place

37%
increase
in revenue

42% increase in sales tonnes from 2018

CAGR of 50% in sales tonnes over three years

On trajectory to achieve **8.4Mtpa annualised sales** in 2020

ADDING SHAREHOLDER VALUE

through the acquisition, exploration, development and commercialisation of coal projects in South Africa

Growth funded by operational cashflows – no shareholder dilution

1.2Mtpa Ubuntu Project in development

Dividends paid since 2017 **41%** of attributable NPAT in 2019

SECTION 1:

OUR BUSINESS

Group structure

Universal Coal

100%

Universal Coal and Energy Holdings South Africa (Pty) Ltd (UCEHSA)

70.5% UCDI – Kangala Colliery	50% UCDII – Berenice Project	48.9% UCDIII – Ubuntu Project	50% UCDV – Cygnus Project	49% UCDVI & VIII – New Clydesdale Colliery	49% North Block Complex
Mountain Rush Trading 6 (Pty) Ltd	Bono Lithihi Investment Group (Pty) Ltd	Ndalamo Resources (Pty) Ltd	Solar Spectrum 365 (Pty) Ltd	100% Eloff Mining [1] Company (Pty) Ltd → Ndalamo Resources (Pty) Ltd	Ndalamo Resources (Pty) Ltd

LEGEND

Projects | Operations | Black Economic Empowerment (BEE) partners

[1] The Eloff Mining Company holds 51% of the shares via an entity, Manyeka Coal Mines (Pty) Limited and the remaining 49% is held directly by UCDIV

Universal Coal, a mid-tier coal mining company, has a portfolio of producing, development and exploration assets located across South Africa's major coalfields, providing investors with exposure to thermal and coking coal assets with the potential to develop into mines of regional significance, with sustained production and cashflow.

Well-positioned to INCREASE PRODUCTION

LOCATION OF OPERATIONS

LEGEND

Thermal coal – mines

1 Kangala
2 NCC
3 NBC
4 Ubuntu [1]

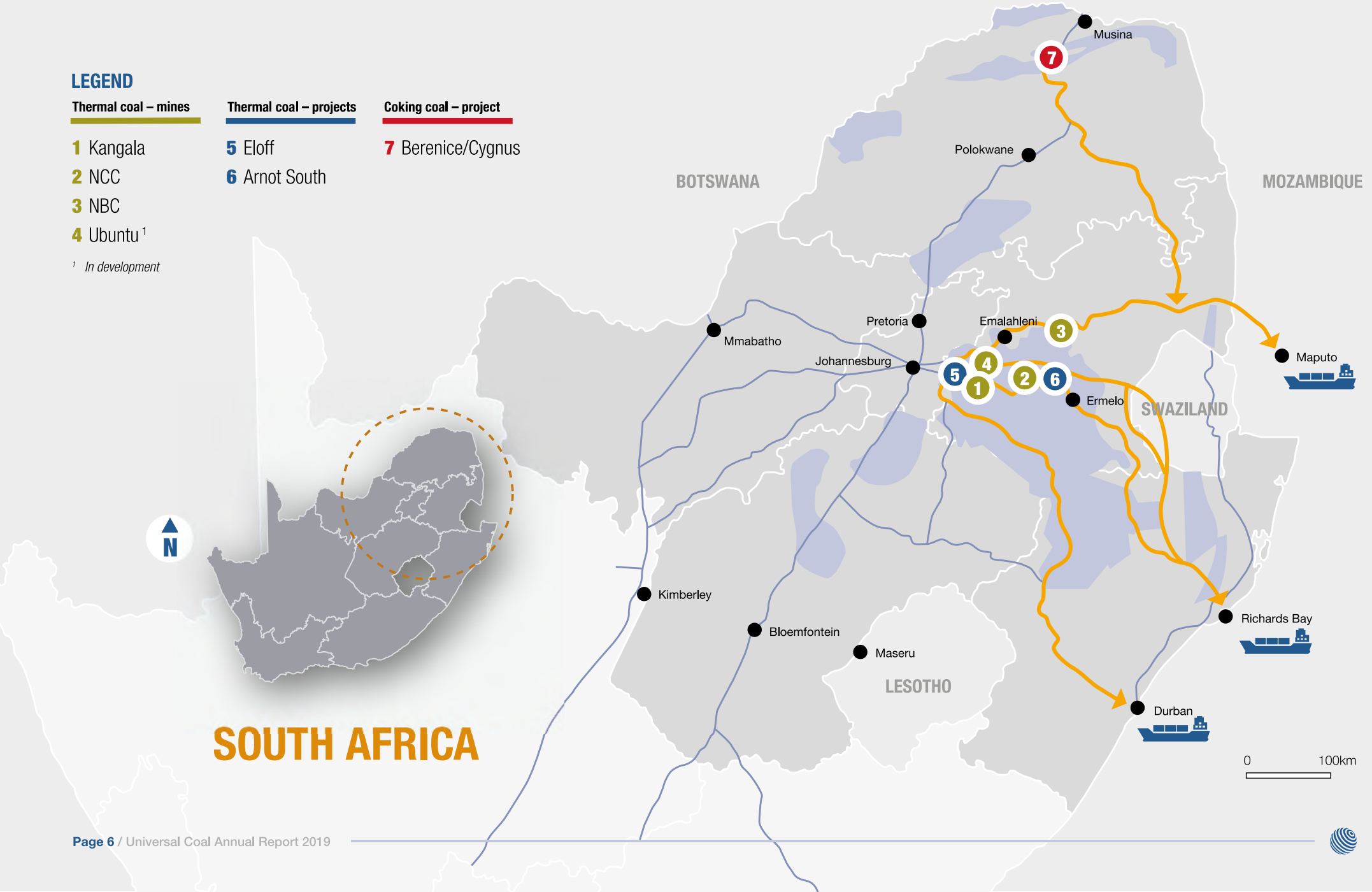
[1] *In development*

Thermal coal – projects

5 Eloff
6 Arnot South

Coking coal – project

7 Berenice/Cygnus



OUR ASSETS

OPERATING MINES

1 KANGALA COLLIERY
Thermal coal

Located 65km east of Johannesburg, in the Witbank Coalfield, Mpumalanga province and consists of Wolwenfontein and Middelbult Projects

Reserve	Resource	LoM	ROM
28.3Mt	98.69Mt	1 year	3.9Mtpa

Ownership	Operation	Employees	LTIFR
70.5%	Open pit, truck and shovel	62	0.11

2 NEW CLYDESDALE COLLIERY
Thermal coal

The operation, extended by underground workings, is located 35km south of Witbank and consists of Roodekop and Diepspruit Projects

Reserve	Resource	LoM	ROM
54.8Mt	136.67Mt	10+ years	4Mtpa

Ownership	Operation	Employees	LTIFR
49% with operational control	Open pit, truck and shovel and underground	60	0.29

3 NORTH BLOCK COMPLEX
Thermal coal

Located west of Belfast, Mpumalanga province, North Block Complex (NBC) consists of Glisa and Eerstelingsfontein mines and Paardeplaats Prospecting Right

Reserve	Resource	LoM	ROM
55.4Mt	108.71Mt	15+ years	4Mtpa

Ownership	Operation	Employees	LTIFR
49% with operational control	Open pit, truck and shovel	96	0.20

MINE IN DEVELOPMENT

4 UBUNTU COLLIERY
Thermal coal

Previously referred to as Brakfontein, located in the Delmas district, 25km east of Kangala, commenced development following acquisition of surface rights

Reserve	Resource	LoM	Ownership
9.1Mt	75.8Mt	6 years	49%

PROJECTS

5 ELOFF
Thermal coal

Contiguous to Kangala, allowing for low-cost expansion and long-term sustainability, a Mining Right and Environmental Authorisation granted

Ownership	Resource	LoM
49%	528Mt	20 years

6 ARNOT SOUTH
Thermal coal

Located within the Witbank Coalfield, 50km from New Clydesdale Colliery (NCC), completed a feasibility study with a Mining Right in application

Ownership	Resource
50%	206.6Mt

PROJECT

7 BERENICE/CYGNUS
Thermal and blending coking coal

Located in the Soutpansberg Coalfield, 90km southwest of Musina, in the Limpopo province, has a Mining Right application and Environmental Authorisation lodged

Ownership	Resource
50%	1.35Bt

LoM: life-of-mine, ROM: run-of-mine, LTIFR: lost time injury frequency rate

SECTION 2:

LEADERSHIP

Establishing a clear vision,

ACHIEVING A COMMON GOAL

CHAIRMAN'S LETTER

The financial year 2019 has been a turbulent yet very successful year for Universal Coal; a year in which the Company delivered on growth and profitability despite the downturn during the second half year of the export market pricing and political instability surrounding the South African 2019 elections.

The Company, whilst subject to two unsuccessful takeover propositions, was still able to finalise two asset acquisitions in addition to commencing the project development of the Group's fourth South African colliery, the Ubuntu Colliery.

In addition to these achievements, the Company also delivered on all committed milestones and forecasts for the year. The Group earnings before interest, tax, depreciation and amortisation (EBITDA)[1] increased by 36% to A$98.2 million – exceeding the market guidance forecast of A$93 million. The Group also increased the total coal tonnes sold to market by 42% to a record-breaking total of 6.7Mt. We are pleased that we were able to achieve such results while maintaining our commitment to sustainable operating practices and, at the same time, ensuring we made positive contributions to the communities in which we operate.

The Company was able to capitalise on the strong AP14[2] pricing during the first six months of FY2019 and the flexibility of our business model enabled the reduction of export product allocation during the latter part of the year when export pricing reduced significantly. Notably, we increased our output by an additional 10% from the original projections to ensure we met our earnings commitment for FY2019.

The Board of Universal is pleased to have rewarded shareholders with a total cash dividend of A$0.03 per share for the period under review, which amounts to a greater than market average yield of 10%.

The Company has achieved tremendous growth over the last three years and is continuing to realise value from its assets by increasing production volumes on an annual basis, product diversification and extending the mine life at various operations through acquisitions and organic growth. Over three financial periods the Company achieved a compound annual growth rate (CAGR) of 50% in volume and 93% in EBITDA.

The successful acquisition and inclusion of NBC in November 2018 has been a great success for the Company. The Colliery has performed well since inception and has delivered according to projections – also proving that the Universal cost structure and operational model remains value-accretive. The further development of the Paardeplaats Project at NBC will allow the Company to increase export quality product volumes.

The finalisation of the Eloff Project acquisition will allow for greater optionality and an extended mine life for Kangala Colliery. The portion of the Eloff Project contiguous to Kangala Colliery will enable an extension of the current pit with all mining and beneficiation infrastructure already in place. Due to the size of the Eloff Project resource, the Company is not only able to sustain the current production levels at Kangala but also potentially double up on the current volumes.

The Company's fourth operation, the Ubuntu Colliery, commenced development early in H1 2020 following the successful execution of the Eskom Coal Supply Agreement (CSA) and increases our production by 1.2Mtpa.

This increase in sales tonnes has set the Company well on the path to becoming a 10Mtpa coal producer. This highlights the importance of our active mergers and acquisitions strategy that will see Universal continue to identify opportunities that add value to our growing portfolio. Our strategy remains the investment in new developments that can be funded from the Company's internally generated cash flows, to maintain a dividend commitment to shareholders.

The Board and management are cognisant of several variables outside of its control. These include incoming mining regulations in the form of the Mining Charter III, which will materially affect the future direction of the South African mining industry and groups that operate in this jurisdiction, the impact of macro-economic variables such as the API4 export coal pricing and various exchange rates in relation to the South African rand.

The global coal mining industry experienced significant downturn in export pricing during the last six months of FY2019 and pricing still remains at the lowest level in the last three years. The API4 index has reduced by 33% since December 2018 and has proven to have a significant effect on the viability of the export product market. We enter FY2020 with greater focus on costs to manage our margins during the tougher months that lie ahead. The Company is projecting an increase of its saleable volume to 8.4Mtpa for FY2020, of which 0.8Mtpa will be export quality coal, which will be at reduced margins based on current pricing forecasts.

I thank my fellow Board members for their continued dedication to our business and their insight during the current financial year. Further, a warm thanks to the executive management team ably led by Chief Executive Officer (CEO) Tony Weber and to all employees who continued to show commitment, perseverance and determination during a particularly complex year. Finally, I would like to extend my appreciation to all of our shareholders and look forward to your ongoing support.

John Hopkins OAM
Non-executive Chairman
27 September 2019

[1] *EBITDA is an alternative performance measure used by management to evaluate financial performance. EBITDA is calculated by adjusting operating profit with the aggregate of depreciation and amortisation included in the cost of sales and operating expenses. EBITDA provides management with an indication of the cash based earnings as the profit has been adjusted to exclude non-cash charges. Refer to note 3 of the Company financial statements for the reconciliation of the EBITDA*

[2] *The price assessment is the benchmark price reference for coal exported from South Africa's Richards Bay terminal*

CHIEF EXECUTIVE OFFICER'S REPORT

As a Group, Universal is proud to present the FY2019 result, being the best year Universal Coal has had to date. Your Company was able to exceed on both volumes and profitability guidance resulting in normalised EBITDA of AUD98.2million, with 6.7Mt of product sold to both the south African and international coal markets on a group basis.

Additionally, we were able to reward shareholders with the A$0.03 dividend, returning 41% of attributable net profit after tax (NPAT) back to the owners of the company.

That said, FY19 can at best be described as a "year of two halves" for Universal Coal. The first six months were satisfactory from an operational perspective, and due to robust export pricing, it was outstanding in terms of sales revenue. The second half of the year posed some challenges operationally and these, together with weaker export prices, impacted negatively on the resulting financial performance.

On balance, however, we ended the year well ahead, achieving improved production, sales tonnes and resultant revenue, delivering on our forecast EBITDA.

None of this would have been possible without the continued support of our various stakeholders – our employees, our contractors and their employees, our shareholders, our coal offtakers and the broader communities of which we form part. We are enormously grateful for this support and look forward to it continuing.

Safety and health

On the topic of safety, it is our belief that productivity can only be achieved in working safely and, in that, it is the intension of each employee to go home with zero compromise on his health and safe wellbeing every day. That said, although we report improved safety statistics at most of our operations, we did still report one LTI at each Kangala and NBC, whilst NCC, very unfortunately, report five LTIs. Elsewhere the performance has been on an upward trajectory from FY2018.

Operating and financial performance

Our total ROM coal production increased by 16% to 8 908kt in FY2019, reflecting the 2 049 kt contribution of the newly acquired NBC.

Total group managed production

	2019	2018
	'000t	'000t
ROM coal production	**8 908**	7 056
Kangala	**3 865**	4 025
NCC	**2 993**	3 031*
NBC	**2 049**	–
Sales volumes		
Export sales	**853**	832
Domestic sales	**5 868**	3 917
Total coal sales	**6 721**	4 750

* *Excludes discard ROM. FY figure was 3 674 including discard volumes*

As shown in the table above, Kangala's ROM contribution for the year was 4% lower, while that of New Clydesdale was 1% down – a consequence of lost production due to the change in open cast mining contractor during the fourth quarter.

Total coal sales rose by 42% to 6 721kt, exceeding the revised guidance by 2%. While Kangala achieved guidance of 2 404kt – 8% down year on year, NCC reported coal sales of 2 535kt, being 6% below guidance but 18% up on FY2018. NBC exceeded guidance by 19% with coal sales of 1 782kt.

Total domestic sales increased by 50% to 5 868kt, a 24% increase to 1 700kt from NCC and a 1 782kt contribution from NBC negating the impact of the drop from Kangala to 2 386kt.

Total export sales were 3% higher at 853kt, a 9% increase to 835kt from NCC helping to offset the decline from Kangala to 17kt.

Normalised EBITDA at A$98.2 million (A$55 million attributable) exceeds guidance of A$93 million (A$51 million attributable), up 36% on FY18's A$72.3 million (A$45 attributable).

For operational and financial performance detail please refer to the Strategic report on page 36 of the report.

Regulatory environment

We continue to enjoy a constructive relationship with our all our regulators on a day-to-day basis, and endeavour to maintain this going forward.

South Africa's Carbon Tax Act came into effect from 1 June 2019. We are currently engaged in an audit to determine the possible impacts of this on us and will report on our findings in due course.

Environmental, social and governance

We continue to take a proactive approach towards environmental management. All our operations have approved Environmental Management Plans (EMPs) and authorisations, with the EMPs identifying environmental impacts that could occur during exploration, mining and mine closure and Incorporating plans to address the resultant water, land management, waste and air quality management, energy consumption and greenhouse gas emissions.

Our approach to socio-economic development centres on the empowerment of previously disadvantaged members within our host communities – young people in particular – through the provision of education, training and skills allowing them to be better placed to become economically active. Our contributions range from improvements to existing learning facilities within our operating footprint to the provision of training programmes, internships and learnerships and of bursaries to study at tertiary institutions.

In tandem, we develop small, medium and micro enterprises (SMMEs) owned by historically disadvantaged South Africans both in through mentoring and assisting financially. We commit to support their growth by procuring from them various goods and services.

Our particular achievements in these areas during FY2019 are documented in the Sustainability report contained in this report, from page 19.

Our position and status in respect of corporate governance appears in the Corporate Governance Statement that can viewed at http://www.universalcoal.com/about-us/corporate-governance/

Outlook

With much of FY2019 characterised by corporate interest in Universal suggests that Universal Coal is delivering on the quality of our existing assets, with their profitability and resultant prospects for future growth not having gone unnoticed.

For the year 2020, Universal expects to see continued performance from both NCC and increased performance from the NBC, with Kangala performance continuing, be it that it's coming to the end of its current operating pit. Development of our fourth operation, Ubuntu – for which we have a coal sales agreement in place with Eskom to supply 1.2Mtpa – is well under way by years end. We expect first production and sales in the second quarter of FY2020, although full production will only be reached during the fourth quarter of the financial year.

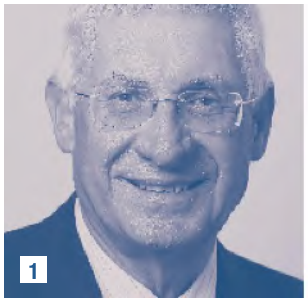
Further down our project pipeline we have Eloff, which is adjacent to and an extension/expansion to Kangala. Although a Mining Right and Environmental Authorisation are already in place, both were unfortunately appealed but we feel confident in overturning these, whilst the application for the Integrated Water Use Licence (IWUL) is still in application. End-user discussions are in progress.

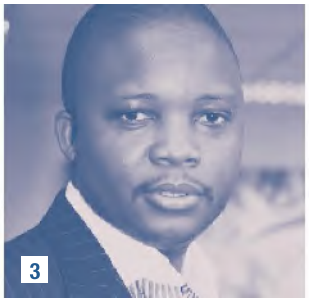
Guidance for the FY2020 however does continue to show the current headwinds currently experienced in the coal markets, – characterised by the continuing subdued export pricing – which points to Universal retaining our domestic supply bias. That said, some softness in the current domestic offtake is also starting to show, with universal coal for the first time having greater installed capacity than market for our product. As such, annual sales forecast has been reduced to 8.4mtpa for the year from our initial communication of 9.0Mtpa for FY2020

Longer term, as a group we would hope to move our domestic/export supply split from FY2019's 88% domestic/12 export to 80% domestic/20 export, given the potential development of the Paardeplaats Project contained within NBC, which is current awaiting regulatory approvals.

Tony Weber
Chief Executive Officer
27 September 2019

DIRECTORS





John Hopkins OAM (1)

LLB

Non-executive Chairman (Independent)

Appointed:
18 April 2012

A R[1]

John Hopkins is a professional company director and former lawyer. John has over the past 30 years been on the board or chairman of more than 20 public listed resource companies in Australia, UK and Canada and as such, been involved in the financing and development and subsequent mergers and acquisitions activities of many energy (coal, oil and gas), gold, base metals, minerals and other resources.

John is a Fellow of the Australian Institute of Company Directors and was awarded the Medal of the Order of Australia (OAM) in 2015 for services to the minerals and resources sector.

Tony Weber (2)

MSc (Mining Eng)

Executive Director, Chief Executive Officer (Non-independent)

Appointed:
1 December 2009

Tony Weber, co-founder of Universal Coal, is a mining engineer with over 20 years' experience in mining, spanning project assessment, finance, development and operations. Prior to joining Universal Coal, Tony was executive director at Nkwe Platinum Limited, an Australian-listed platinum developer, as well as operations manager at Potgietersrus Platinum Mine and the Gamsberg Project. Tony has also worked at NCC and Greenside Colliery for Gold Fields of South Africa, and, for a brief period, at Prosper Hanniel Colliery in Germany. He has significant skills and experience in coordinating project feasibility studies and has hands-on operational experience in the coal extraction industry.

Shammy Luvhengo (3)

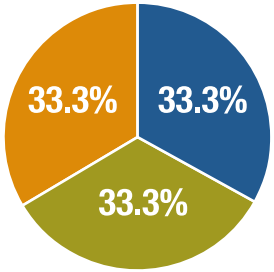
BSc (Geology)

Executive Director, Director Business Development (Non-independent)

Appointed:
7 September 2010

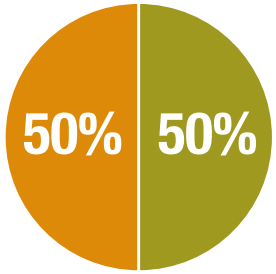
Shammy Luvhengo is a qualified investment banker and geologist. He started his career with Exxaro Resources before moving into the investment world. Shammy worked for Investec Bank and Nedbank Capital, structuring and implementing project finance and BEE deals within the resources industry. Prior to joining Universal Coal, he worked at Nkwe Platinum Limited as head of business development and investor relations.

Board committee membership: A Audit and Risk Committee R Remuneration Committee [1] *Chair of the Committee*



Board independence

- Executive (Non-independent)
- Non-executive (Independent)
- Non-executive (Non-independent)



Board tenure

- 0-3 years
- 3-8 years
- >8 years

Henri Bonsma (4)

BProc

Non-executive Director (Independent)

Appointed:
1 December 2009

A[1] R

Henri Bonsma is a qualified lawyer and successful businessman with interests throughout South Africa. Henri has been actively investing in the South African mining industry for over a decade. He is a co-founder of Universal Coal and has been involved in the establishment of various other junior chrome, platinum and iron ore companies and promoted several listings on the Johannesburg Stock Exchange (JSE), Alternative Investment Market (AIM) and the ASX.

Carlo Baravalle (5)

MBA (INSEAD)

Non-executive Director (Non-independent)

Appointed:
7 January 2013

A

Carlo Baravalle spent several years in strategic consulting working on assignment for French conglomerates between Paris and the USA and in the telecoms industry, becoming a director of the corporate finance telecoms team at Warburg before taking a senior global position at Lucent Technologies. Carlo became involved with the private equity industry working with an Apax Partners-owned company as MD International, as a main board member at The Exchange FS, and later as senior vice-president for EMEA, Asia and LatAm for LCC, a telecoms engineering company initially invested by the Carlyle Group. In 2006, he launched a private equity fund of funds aimed mainly at Italian institutional investors.

David Twist (6)

BSc (Hons) (Geology), PhD (Geology)

Non-executive Director (Non-independent)

Appointed:
7 January 2013

R

Dr David Twist has more than 30 years' experience in geological research, exploration and developing mineral resource projects. Among others, he is a co-founder of Sephaku Fluoride (Pty) Limited, African Precious Minerals and APM Mining, Sephaku Holdings Limited, Taung Gold (Pty) Limited and Sedibelo Platinum Mines Limited (formerly Platmin Limited), where he also served as CEO until 2006. David has also served as an executive director for most of the companies mentioned above. He is a founding partner at AMED Funds, one of Universal Coal's largest shareholders and has been appointed to the Universal Board as the representative of AMED Funds.

Board committee membership: A Audit and Risk Committee R Remuneration Committee [1] *Chair of the Committee*

SECTION 3:

REVIEW OF THE YEAR

Multi-mine thermal coal producer with

A DIVERSIFIED REVENUE STREAM

MINERAL RESOURCES AND ORE RESERVES STATEMENT

Mineral Resources and Ore Reserves

Mineral Resources and Ore Reserves estimates for the Universal Coal owned operations and projects are reported in accordance with the Australasian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code), 2012 as required by the ASX and are also South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC) complaint.

The SAMREC Code is a rigorous code that delivers compliant Mineral Resource and Ore Reserve estimates and is a "qualifying foreign estimate" for the purpose of ASX Listing Rules. Both codes represent current best practice for reporting Mineral Resources and Ore Reserves.

Mineral Resources and Ore Reserves information in the following tables is based on estimations compiled by Competent Persons, as defined by the JORC Code, including independent consultants and fulltime employees of Universal Coal. All Competent Persons have more than the required minimum of five years' relevant estimation experience and are members of recognised professional bodies whose members are bound by a professional code of ethics. Each Competent Person consents to the inclusion in this report of information they have provided in the form and context in which it appears. Competent Persons responsible for the estimates are listed on page 18, by operation and/or project, along with their professional affiliation, employer and accountability for Mineral Resources and/or Ore Reserves.

Ore Reserves

The Ore Reserve figures in the following tables are as at 30 June 2019. Summary data as at 30 June 2018 is shown for comparison. Metric units are used throughout. The figures used to calculate Universal Coal's share of Ore Reserves are often more precise than the rounded numbers shown in the tables, hence slight differences might result if the calculations are repeated using the tabulated figures.

The variation in Ore Reserves between 30 June 2018 and 30 June 2019 is due to depletion through production and remodelling following infill drilling and mine redesign using current investment assumptions, including the use of projected long-term commodity prices, in calculating Ore Reserve estimates as prescribed by the JORC Code, 2012.

		2019 Production		2018 Production	
	Universal Coal share	Total	Universal Coal share	Total	Universal Coal share
	%	'000t	'000t	'000t	'000t
Kangala	70.5	**2 404**	**1 695**	2 610	1 840
NCC	49	**2 535**	**1 242**	2 140	1 048
NBC [1]	49	**1 782**	**873**	–	–
Universal Coal total		**6 721**	**3 810**	4 750	2 888

[1] *NBC acquired during FY2019 so no comparative data applicable*

- *Marketable coal production figures refer to the total quantity of saleable coal produced on a product moisture basis following on site processing*

2019 Total production ('000t)

6 721 ▲

2019 Universal Coal share ('000t)

3 810 ▲

MINERAL RESOURCES AND ORE RESERVES STATEMENT continued

	Ore Reserves at 30 June 2019		Mineral Resources at 30 June 2019				
	Proved	Probable	Measured	Indicated	Inferred	Total	Attributable to Universal
	Mt	Mt	Mt	Mt	Mt	Mt	Mt
Thermal coal (Witbank)							
Kangala [1]	28.30	0.00	51.33	15.03	32.33	98.69	69.58
NCC [2]	48.19	6.61	88.82	41.82	6.03	136.67	66.97
Ubuntu [3]	9.15	0.00	31.70	39.40	4.70	75.80	37.14
Arnot South [4]	0.00	0.00	2.28	65.30	139.00	206.58	103.29
Eloff [5]	0.00	0.00	11.76	265.96	250.57	528.29	258.86
NBC [6]	48.5	6.46	65.66	17.67	25.38	108.71	53.27
Total thermal coal	**134.16**	**13.08**	**251.55**	**445.18**	**458.01**	**1 154.74**	**589.11**
Coking coal							
Berenice [5] Cygnus [6]	0.00	0.00	424.90	800.90	124.30	1350.10	675.05
Total coking coal	0.00	0.00	424.90	800.90	124.30	1350.10	675.05
Total	**134.16**	**13.08**	**676.45**	**1 246.08**	**582.31**	**2 504.84**	**1 264.16**
Total thermal and coking coal	**147.24**		**676.45**	**1 246.08**	**582.31**	**2 504.84**	**1 264.16**

		Ore Reserves				Marketable Ore Reserves		Universal Coal share at 30 June 2019		
	Mine type	2019 Proved	2019 Probable	2018 Proved	2018 Probable	2019	2018	Interest	Ore Reserves	Marketable Ore Reserves
		'000t	'000t	'000t	'000t	'000t	'000t	%	'000t	'000t
Ore Reserves at operating mine										
Kangala	O/C	**28 296**	**–**	31 645	–	**15 079**	17 228	**70.5**	19 949	10 631
NCC	O/C & U/G	**48 185**	**6 613**	47 558	6 074	**36 239**	34 756	**49**	26 851	17 030
NBC	O/C	**48 532**	**6 465**	–	–	**32 390**	–	**49**	26 948	15 871
Undeveloped Ore Reserves										
Ubuntu	O/C	**9 100**	**–**	9 100	–	**7 248**	7 248	**49**	4 459	3 552
Total		**134 113**	**13 078**	88 303	6 074	**90 956**	59 232		**78 207**	**47 811**

O/C: opencut, U/G: underground

Mineral Resources

As required by the ASX, the following table contains details of other mineralisation, as at 30 June 2019, that has a reasonable prospect of being economically extracted in the future but which is not yet classified as Proved or Probable Ore Reserves. This material, as defined under the 2012 JORC Code, is Mineral Resources estimates which are largely based on geological information with only preliminary consideration of mining, economic and other factors. While, in the judgement of the Competent Persons, there are realistic expectations that all or part of the Mineral Resources will eventually become Proved or Probable Ore Reserves, there is no guarantee that this will occur, as the result depends on further technical and economic studies and future prevailing economic conditions.

As in the case of Ore Reserves, operation and project estimates are completed using or testing against Universal Coal's long-term pricing and market forecasts/scenarios. All Mineral Resource figures are stated as inclusive of the Ore Reserves reported.

			Coal Mineral Resources at end 2019			Total Mineral Resources		Universal Coal share	
	Likely mine type	Coal type	Measured	Indicated	Inferred	2019	2018	2019	2019
			Mt	Mt	Mt	Mt	Mt	%	Mt
Kangala [1]	O/C	TC	51.33	15.03	32.33	**98.69**	102.36	70.5	69.58
NCC	O/C & U/G	TC	88.82	41.82	6.03	**136.67**	139.63	49	66.97
NBC [2]	O/C	TC	65.66	17.67	25.38	**108.71**	–	49	53.27
Ubuntu [3]	O/C	TC	31.70	39.40	4.70	**75.80**	75.80	49	37.14
Eloff [4]	O/C & U/G	TC	11.76	265.96	250.57	**528.29**	424.00	49	258.86
Arnot South [5]	O/C & U/G	TC	2.28	65.30	139.00	**206.58**	206.58	50	103.29
Berenice/Cygnus	O/C & U/G	MC & TC	424.90	800.90	124.30	**1 350.10**	1 350.10	50	675.05
Total			676.45	1 246.08	582.31	**2 504.84**	2 298.47		1 264.16

TC: thermal coal, MC: metallurgical coal

[1] *Reduction in the Kangala and NCC Mineral Resources from end June 2018 to end June 2019 is due to production*

[2] *NBC acquired during FY2019 so no comparative data applicable*

[3] *Ubuntu shareholding changed during FY2019 therefore the attributable volumes have reduced to 37.14Mt*

[4] *The Eloff Mineral Resource was updated during the current year to align the disclosure with the rest of the entities; the original 424Mt was based on mineable tonnes in situ (MTIS) and the increased amount of 528.29Mt is based on gross tonnes in situ (GTIS); the Resource of Eloff remains unchanged; the rest of the Eloff Project was also acquired during FY2019 and the Universal effective ownership increased to 49%*

[5] *Arnot South is subject to the successful approval of the Prospecting Right transfer to Universal Coal in accordance with Section 11 of the Mineral and Petroleum Resources Development Act (MPRDA), 2002*

- *Mineral Resources are stated as GTIS*
- *The yield factors applied reflect the impact of further processing, where necessary, to provide marketable coal and are based on theoretical yields for the different export and domestic products as derived from test work conducted on drill core, adjusted by practical plant factors established during feasibility studies and current operational performance*
- *Coals have been analysed on an air-dried moisture basis in accordance with South African standards and the gross calorific values also reported on that basis*

2019 Mineral Resources (Mt)

2 504.84

2019 Universal Coal share (Mt)

1 264.16

MINERAL RESOURCES AND ORE RESERVES STATEMENT continued

Mineral Resources and Ore Reserves corporate governance

Universal Coal subscribes to a governance process supporting the generation and publication of Mineral Resources and Ore Reserves to comply with the JORC Code, 2012, which includes ongoing review and reporting of Mineral Resources and Ore Reserves when and where material changes occur. Universal Coal's chief geologist has the ultimate responsibility for development of the Company's Mineral Resources and Ore Reserves estimation and reporting standards and procedures, while overseeing and signing-off on the appointment of Competent Persons and reviewing exploration results, Mineral Resources and/or Ore Reserves data prior to public reporting.

Prospecting and tenement information

Refer to note 6 in Notes to the consolidated and company annual financial statements for additional information.

Universal Coal ascribes to the continued enhancement of governance processes and Competent Person development and training.

Competent Persons

Competent Person	Association [1]	Employer
MINERAL RESOURCES		
Kangala (Middelbult), Ubuntu, Arnot South, Berenice and Cygnus		
NJ Denner	SACNASP	Gemecs (Pty) Limited
Kangala (Wolwenfontein)		
S Mokitimi	SACNASP	Universal Coal/ Gemecs (Pty) Limited
N Denner	SACNASP	Universal Coal/ Gemecs (Pty) Limited
D Zulu	SACNASP	Universal Coal/ Gemecs (Pty) Limited
NCC		
S Mokitimi	SACNASP	Universal Coal/ Gemecs (Pty) Limited
P Rantao	SACNASP	Universal Coal/ Gemecs (Pty) Limited
N Denner	SACNASP	Universal Coal/ Gemecs (Pty) Limited
Eloff		
J Malan	SACNASP	Universal Coal

Competent Person	Association [1]	Employer
ORE RESERVES		
Kangala		
P van der Linde	ECSA	Mindset/HF Procon (Pty) Limited
M Vertue	ECSA	Mindset/HF Procon (Pty) Limited
H Fourie	ECSA	Mindset/HF Procon (Pty) Limited
NCC		
P van der Linde	ECSA	Mindset/HF Procon (Pty) Limited
M Vertue	ECSA	Mindset/HF Procon (Pty) Limited
H Fourie	ECSA	Mindset/HF Procon (Pty) Limited
Ubuntu		
K Donaldson	ECSA	Universal Coal
M Vertue	ECSA	Mindset/HF Procon (Pty) Limited

SACNASP: South African Council for Natural Scientific Professions, ECSA: Engineering Council of South Africa

[1] *Recognised overseas professional organisations as defined by the JORC Code*

SUSTAINABILITY REPORT

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SOCIO-ECONOMIC DEVELOPMENT
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SAFETY AND HEALTH

Zero Harm is achievable

When extracting and processing coal at our various operations we aspire to Zero Harm to our people, our host communities and the environment as much as is operationally practicable.

Universal is committed to introducing and sustaining a healthy and safe working environment, by operating in an environmentally and socially responsible manner, focused on share price while adding value to all our stakeholders.

Accordingly, we remain committed to providing safe working environments for our employees and contractors, incorporating the highest safety and health standards across all our sites. We aim to instil a work culture that views safety and health as of paramount importance and train our employees to not only work responsibly but to look after their own and fellow employees' safety and health.

Our principles

A zero-tolerance approach will save lives and protect the environment.

- Be responsible and accountable
- Embrace the culture of learning from previous incidents
- Respect and protect the culture, beliefs and heritage of the communities in which we operate
- Simple, non-negotiable standards and rules

SUSTAINABILITY REPORT continued

SAFETY AND HEALTH

Kangala Colliery

We are delighted to announce that, as part of our Zero Harm objective, Kangala successfully obtained International Organisation for Standardisation (ISO) 45001 certification for Safety Management Systems in October 2018. We are justly proud that Kangala Colliery is the first mining company in South Africa to obtain an ISO 45001 certificate since migration from Occupational Health and Safety Management Systems (OHSAS) 18001:2007 to ISO 45001:2018.

Kangala is continuously improving its safety record with an average total LTIFR of 0.11 in FY2019 compared to 0.22 in FY2018; 0.50 in FY2017 and 0.87 recorded in FY2016. The significant improvement in safety records was due to management's Visible Felt Leadership (VFL) and continued hard work with contractors and employees to achieve a Zero Harm environment.

The VFL programme demands management interaction with employees through site inspections, forums, meetings as well as receiving direct feedback from employees. The VFL programme has proven to be a success, thereby affording management the opportunity to fully support programmes aimed at addressing safety and health risks in all working areas and continuous improvement thereof.

Kangala launched a behavioral-based safety campaign in Q3 FY2018. An external service provider successfully conducted an industrial theatre with all contractors and employees to demonstrate compliance with Section 22 and 23 of the Mine Safety and Health Administration (MSHA) Act and share information on the creation of a safe environment.

In August FY2018, Department of Mineral and Resources (DMR) inspectors conducted a Health, Safety and Environment (HSE) Presidential Audit and a few minor findings were raised. The action plans presented were successfully implemented and a follow-up audit by the DMR reported improvement, compliance and best practice in the mining industry.

Kangala kept personal dust exposure and noise induced hearing loss (NIHL) to within the acceptable limits as per industry occupational hygiene targets. An annual average respirable coal dust level of 0.31mg/m^3 of personal dust exposure was maintained (46 readings) in FY2019, which is well below the target threshold of 1.5mg/m^3. All readings above limits were investigated and submissions made to the relevant authorities. There was one NIHL case reported in FY2019.

In caring for the wellbeing of our employees, Kangala conducted a health wellness programme for all contractors and employees on 5 December 2018. Employees voluntarily tested for HIV, high blood pressure and sugar diabetes. Approximately 60% of the total workforce, including contractors and sub-contractors, attended which is about a 30% improvement on the previous year.

A wellness programme is conducted at the mine every second week of the month. This onsite arrangement is not only efficient, accessible and saves employees travelling costs to a clinic some distance away from the mine, it encourages more employees to participate and has less impact on production time.

In FY2019 Kangala achieved:

Fatality free man hours since inception

5 099 389

Total fatality free shifts since inception

3 953

LTIFR

0.11

SUSTAINABILITY REPORT continued

SAFETY AND HEALTH

New Clydesdale Colliery

NCC strives for Zero Harm. Regrettably, we had five lost time injuries (LTI) and three Section 54 notices in terms of Mine Health and Safety Act (MHSA) in FY2019. Consequently, we did not maintain our LTIFR of 0.09 achieved in FY2018 and regressed to a LTIFR of 0.29 in FY2019.

Despite the deterioration in LTIFR record, NCC has managed to successfully implement a compliance performance system which measures due diligence for all legally appointed employees on a monthly basis. Legal liability training was also conducted with all NCC and contracting legal appointees.

In preparation for ISO 45001 Safety Management System implementation, NCC rolled out a SharePoint based document management system to ensure all stakeholders have access to approved guidelines, policies and procedures. ISO 45001 Safety Management System certification is planned for in Q3 FY2020.

NCC has had numerous health and safety compliance inspections by various competent authorities, including the DMR, Department of Health and Department of Labour. The Colliery received positive feedback and reports listing areas of improvement. Weekly group audits and VFL involving management are conducted, wherein valuable information relating to non-conformance is gathered, processed and investigated. Our aim is to implement coherent preventative measures and not just adopt a “stop and fix” practice.

NCC has effectively implemented proximity detection systems for the open-cast mine’s trackless mobile machinery and for underground diesel equipment as required by the DMR’s Mandatory Code of Practice for the Operation of Trackless Mobile Machines.

During the annual HIV/Aids day in December, 139 employees participated in a Voluntary Counselling and Testing programme (VCT), 117 tested HIV negative, 22 tested HIV positive and 12 people were put on treatment. VCT is also offered during annual medicals and at our monthly wellness sessions. Male and female cancer screening was also conducted. Ongoing health wellness is conducted monthly, with hypertension, diabetes and obesity testing being closely monitored.

Five tuberculosis (TB) cases were reported to the Medical Bureau for Occupational Disease and four NIHL cases in FY2019. Investigations were performed and additional measures taken to ensure the safety and health of all persons exposed.

Occupational hygiene measures were achieved and maintained according to the DMR milestones for FY2019.

In FY2019 NCC achieved:

Fatality free man hours since inception

7 469 026

Total fatality free shifts since inception

2 454

LTIFR

0.29

SUSTAINABILITY REPORT continued

SAFETY AND HEALTH

North Block Complex

Since the aquisition of NBC from Exxaro, we have managed to maintain an excellent safety record.

One reportable LTI and one medical treatment case was reported. Nevertheless, we managed to achieve an average total recordable LTIFR of 0.20 compared to LTIFR target of 0.22 in a period of six months since take-over from Exxaro. This is due to management's commitment and employees continued hard work to achieve and maintain a Zero Harm environment.

NBC is in the process of implementing ISO 45001:2018 Safety Management System.

The management team has commenced with VFL in order to provide support to employees through coaching, site inspections and behavioural change aimed at reducing risk behaviour and unsafe conditions. This initiative has yielded positive results, ensuing a three months LTI-free period.

In the last two quarters of FY2019, the DMR's inspectors of machinery equipment, mining and medical visited the mine on several occasions. There were no major findings reported and all action plans were implemented. A DMR HSE Presidential Audit was also conducted and no major findings were reported.

In caring for the wellbeing of our employees, we continuously conduct health education, screening, treatment and monitoring of employees and contractors for chronic diseases. HIV and TB programmes are well implemented and in line with the ambitious National 90-90-90 Strategy Plan for AIDS, HIV and TB. Regrettably, one TB case was discovered, reported but is now well managed.

In terms of hearing conservation programme, we flag and follow up employees with 2.5% loss of hearing. A risk based medical surveillance programme is well implemented.

In FY2019 NBC achieved:

Fatality free man hours since inception

1 338 749

LTIFR

0.22

SUSTAINABILITY REPORT continued

ENVIRONMENTAL MANAGEMENT

ENVIRONMENTAL MANAGEMENT

The Company continues to take a proactive approach towards environmental management.

All our operations have an approved EMP and the necessary authorisations, which identify and address environmental impacts that could occur during the exploration, mining and mine closure phases. Incorporated within the EMP are reports and plans to address water management, land management, waste management (non-hazardous and hazardous materials), air quality management, energy consumption and greenhouse gas emissions.

Kangala Colliery

Kangala has invested heavily to ensure that every aspect of production is optimised to eliminate and minimise any negative environmental impacts associated with the operation.

Kangala managed to retain ISO 14001:2015 certification and continues to uphold this internationally recognised environmental standard that sets clear guidelines and requirements for how an environmental management system should operate to achieve continual improvement. Maintenance of ISO 14001:2015 standards confirms that Kangala has demonstrated a clear commitment to sustainability and has a robust system of administrative checks and auditability.

Environmental performance assessment

Environmental performance assessments and audits were conducted by independent environmental specialists and regulatory authorities to assess the level of compliance with the conditions of Kangala's Environmental Authorisations, Environmental Management Programme (EMPr) and environmental legal compliance. Minor findings were reported but no environmental penalties or directives were issued by the regulatory authorities in FY2019.

Water management

Internal and external IWUL audits were conducted in FY2019. An external IWUL audit reported a marked improvement in terms of compliance with IWUL conditions, from 95.83% in FY2018 to 97% in FY2019. It is an improvement of 1.2% compared to 0.04% improvement recorded in FY2018.

Kangala is authorised to abstract water from two boreholes for potable use. The abstracted volumes were well within the authorised limits, with actual abstraction of 119 784m^3/annum from borehole A, which is below the limit of 324 000m^3/annum and 41 201m^3/annum abstracted from borehole B, which is below the limit of 60 060m^3/annum. The water quality tests from the potable water supply borehole detected no biological or chemical contamination.

Consistent surface and groundwater sampling and analysis of various chemical constituents and groundwater level measurements are conducted in various groundwater monitoring boreholes and surface water points on a monthly and quarterly basis as required by the IWUL and South African National Standards (SANS) drinking water quality standards, to ensure effective management of the water resources on site and in surrounding areas. Sulphate concentrations are the main tracing element in evaluating the potential future impacts on water resources; both surface and groundwater monitoring points were below the sulphate water quality objective target of 400mg/l set in the IWUL conditions and within the SANS drinking water quality standards.

Water conservation initiative

On the back of high volume water requirements necessary to operate the coal processing plant, Kangala's original mine plan was designed to incorporate a large pollution control dam. Unfortunately, with time, the mine started realising significant water losses from the dam because of a high evaporation rate, facilitated by the large size of the dam. While Rand Water could supply our needs, this is costly and an alternative solution was needed. A closed water circuit, quick to fabricate and install water storage system, which eliminates pollution control, dam evaporation challenges, while ensuring and maintaining an environmentally friendly footprint, was installed. This solution provided sufficient water for the operation and full production days are achievable without stoppage due to water shortages.

Kangala has invested heavily to ensure that every aspect of production is optimised to eliminate and minimise the negative environmental impacts associated with the operation.

Biomonitoring

Kangala conducts habitat assessment in terms of South African Scoring System Version 5 (SASS5) scores. Biomonitoring surveys are performed during wet and dry seasons. In wet season biomonitoring, the biological trends revealed an overall improvement in the river health. During dry season biomonitoring, no marked fluctuations were observed between the upstream and downstream systems, indicating no discernable influence on these systems from Kangala's mining operations.

In the wet season, an improvement in the macro-invertebrate community was observed during the survey compared with previous studies conducted. This was reflected in the increased total sensitivity scores and average scores per taxon observed. Furthermore, an increase in ecological category of the Macro-invertebrate Response Assessment Index from a class E to a class D was observed. The increase in ecological category is attributed to stable water quality conditions.

Air quality and environmental dust fallout

Dust fallout and PM10 monitoring is conducted monthly. Samples are taken in accordance to the SANS 1929:2005 guidelines and assessed according to the air quality standards of the National Environmental Management: Air Quality Act (NEMAQA) (Act 39 of 2004) and compared against the site baseline information. Dust is one of the key pollutants of concern associated with open-cast mining activities. Dust emissions within the mine are managed, reduced and eliminated through water suppression systems. The daily average PM10 concentrations fell below the SANS of 75ug/m^3, with 61.28ug/m^3 the highest concentration recorded.

In FY2019, the dust fallout rates recorded at the monitoring sites were below the non-residential area standard of 1 200mg/m^2/day. There were no instances where the non-residential area standard was exceeded. The highest dust concentration recorded was 1 185.02mg/m^2/day in Q1 FY2019. Therefore for FY2019, the dust fallout rates at the sites are considered in compliance with the South African National Dust Control Regulations, 2013.

Noise monitoring

All measurements, taken on the different days during the surveys, revealed noise levels below the minimum statutory requirements. The highest noise recorded was 44.9db(A) in Q3 FY2019, below the average target of 45db(A). The measurement and rating of environmental noise with respect to health, land use, annoyance and to speech communication (SANS 10103:2008), was used to assess the noise impacts of mining operations.

SUSTAINABILITY REPORT continued

ENVIRONMENTAL MANAGEMENT

New Clydesdale Colliery

NCC has successfully rehabilitated the historic Vaalkrantz open-cast pit section. Backfilling, dozing and levelling work has been completed according to the post-mining landform design. Final shaping and revegetation are underway and expected to be completed in Q1 FY2020. Closure of Vaalkrantz void has decreased NCC's environmental liability cost by ~R60m.

Environmental performance assessment

In an assessment performed by an independent environmental specialist, NCC achieved 75% compliance with the conditions set out in the EMP. Internal environmental risk assessments have also been performed and areas of improvement identified. Practical measures to manage and/or prevent the risks have been identified and are now being implemented. No environmental penalties or directives were issued by the regulatory authorities in FY2019.

Water management

In FY2019, an external IWUL audit was conducted by an independent environmental practitioner. Compliance of 63% was achieved, but 38% of the license conditions were not applicable. An action plan to address non-compliance was developed, submitted to the relevant regulatory authority for approval and implemented thereafter.

NCC is authorised to abstract 114 228m^3 of water annually from the Olifants River for domestic use and 53 514m^3 was abstracted in FY2019.

Monthly ground and surface water monitoring was carried out on 32 groundwater monitoring boreholes and 20 surface water monitoring points as prescribed in the IWUL licenses. The samples were analysed in a South African National Accreditation System (SANAS) accredited water testing laboratory by an independent consultant. NCC did not record any significant exceedance to the limits set out in the IWUL.

Biomonitoring

Habitat assessments in terms of SASS5 scores were carried out by a registered and Department of Water and Sanitation certified independent specialist during the high flow (wet season) and low flow (dry season) seasons. In FY2019, the present ecological state of the Olifants River was a category F, which indicates a critically modified river system. The Steenkool River was a category E, which indicates a seriously modified river system. The poor ecological state of the water courses were determined to be primarily due to the presence of non-native fish in the watercourse (particularly in the Olifants River), as well as movement barriers (weirs) present. All the species collected during the survey were considered to be tolerant to water quality impairment.

Air quality and environmental dust fallout

In FY2019, 27 dust monitoring points were monitored and sampled monthly. PM2.5 and PM10 ambient dust samples were collected using SANS 1929:2005 guidelines and assessed according to the NEMAQA (Act 39 of 2004). The samples were analysed in a SANAS accredited laboratory by an independent consultant. NCC did not record any severe exceedance and the results show that the residential limit of 1 200mg/m^2/day was not exceeded. A new chemical dust suppression solution, introduced and applied on haul roads in and around the mining area, is working effectively.

Noise monitoring

Quarterly noise monitoring surveys were performed by an independent Southern African Institute for Occupational Hygiene registered occupational hygiene practitioner. The surveys were undertaken during the day and at night during operating hours. The highest daytime reading recorded was 65.49dBA, with 68.49dBA recorded at night on the same monitoring site. This monitoring site is located outside the mine, close to a gravel regional road and the elevated reading was due to traffic on the regional road (R547). No exceedances were recorded on sites located in and around the mine.

The general procedure used to determine the noise impact was guided by the requirements of SANS 10328:2003: Methods for Environmental Noise Impact Assessments; and applied the noise impact assessment criteria outlined in SANS 10103:2008, The Measurement and Rating of Environmental Noise with Respect to Annoyance and to Speech Communication.

North Block Complex

NBC is comprised of Glisa, Eerstelingsfontein and the undeveloped Paardeplaats sections. Each has an approved Mining Right, EMP and IWUL.

Environmental plan and performance

NBC embarked on a process to consolidate the Glisa and Paardeplaats Mining Rights and Environmental Authorisation in terms of Section 102 of the MPRDA, 2002 (Act 28 of 2002). IWUL consolidation process is also underway in terms of National Water Act, 1998 (Act 36 of 1998).

Paardeplaats section will utilise the coal processing facility and other related infrastructure located at Glisa. The two sections will be combined to achieve effective implementation of environmental management systems and will set achievable and sustainable environmental objectives and targets. The consolidation plan will align and minimise certain mining activities, thereby reducing the environment impact footprint.

The Eerstelingsfontein mining section will reach the end of its life in February 2020. Mine closure studies, applications and rehabilitation plans have been developed and are being executed.

NBC has embarked on a process of recertification for ISO 1400 Environmental Management system process. ISO 14001 certification is in place and was issued to the previous owner of NBC. It should be reissued to NBC in terms of NBC policies and procedures. NBC plans to be ISO 14001:2015 certified in June 2020.

Water management

NBC has approved IWUL for Eerstelingsfontein, Glisa and Paardeplaats. An external IWUL audit was conducted for the operational sections in Q1 FY2019, i.e. Eerstelingsfontein and Glisa. The audit reported a 94% and 86% compliance with the conditions of the license, respectively.

Biomonitoring

Eerstelingsfontein monitoring clearly indicated deterioration in the condition and integrity of the wetlands on site. However, it did compare to the baseline wetland condition established in 2012, as most of the wetlands have experienced a category drop in present ecological status (PES). It must be noted that Eerstelingsfontein wetlands were significantly impacted on and a water use license permits mining within the catchments of some of these wetlands.

Wetland monitoring analysis at Glisa was compared against the recommended ecological class and PES as stipulated in the IWUL. Most of the wetlands within the mining area remain within the PES categories as required in the IWUL. The sheet-rock wetland has deteriorated slightly, though it remains at the very upper limit of the "C" PES category. The slight change in PES can be attributed primarily to an increase in density of alien trees in the catchment area. Alien invasive vegetation is extensively present within the wetland catchments and has also encroached into the wetland margins. An alien invasive species removal plan has been developed and removal is underway.

Air quality

Dust monitoring is conducted as per the National Dust Control Regulations, No. 36974 Government Gazette, in all the mining sections. All monitoring points results were below the residential limits of 600mg/m^2, despite the windy conditions in the Belfast region.

Mine closure and environmental liabilities

Final landform designs for Glisa and a detailed closure plan for Eerstelingsfontein have been developed and the necessary authority approvals are pending. Backfilling of the voids is underway at Glisa. Concurrent rehabilitation is ongoing at Kangala and Eerstelingsfontein and a sizeable area has been revegetated and seeded already.

Final rehabilitation, decommissioning/closure plan and environmental risk assessments for Kangala Colliery, NBC and NCC were conducted in terms of Regulation GN R1147 of the National Environmental Management Act (NEMA) (Act No. 107 of 1998). All operations have financial provision for environmental liability in place, without shortfall.

SUSTAINABILITY REPORT continued

SOCIO-ECONOMIC DEVELOPMENT

SOCIO-ECONOMIC DEVELOPMENT

Universal's approach to socio-economic development (SED) is about empowering previously disadvantaged members of our host communities with resources, support and skills so they can become economically active and ultimately lead better lives.

We strive to nurture, advance and sustain SMMEs in our areas of operation, by providing technical and business development support through mentoring and coaching.

Procurement, enterprise development and supplier development

Universal is committed to the growth of historically disadvantaged South African (HDSA) suppliers and undertakes to maximise the value of cost-effective and reliable procurement of capital goods, consumables and services from companies owned, managed and controlled by HDSAs in the affected communities. The amount spent by our operations on procurement from local municipality HDSAs includes local community supplier development, enterprise development projects and corporate social investment (CSI) programmes established during the financial year.

Total spent with local HDSA suppliers

R571m in FY2019

Kangala Colliery

In FY2019, Kangala invested R125m on procurement from local municipality HDSAs, a slight decrease from R173m in FY2018, due to a deferred enterprise development project planned for FY2020.

New Clydesdale Colliery

In FY2019, NCC invested R252m on procurement from local municipality HDSAs, which is a noticeable improvement on the R198m spent in FY2018.

North Block Complex

In FY2019, NBC invested R194m on procurement from local municipality HDSAs.

Small, medium and micro-sized enterprises

Kangala Colliery

Beyond the Social and Labour Plan (SLP) commitments, Kangala established a sewing project in Delmas. This project is part of an intensive community transformation drive which has, in the last few years, witnessed Kangala making a serious inroad in empowering the Delmas community. In Q4 FY2018, 10 candidates who had been undergoing training in running a sewing company graduated at a ceremony which was well attended by the local municipality and community representatives. Their qualification was obtained after six months of training provided by a Sector Education and Training Authority registered and accredited service provider.

The candidates were drawn from a cross-section of Delmas residents incorporating the often marginalised from farms. The candidates have since established a co-operative called “Ethetholino” that intends to manufacture and supply local schools with school uniforms.

New Clydesdale Colliery

In FY2019, NCC identified and awarded medium-to-long term contracts to seven SMMEs to improve economic growth and promote development of the communities in which we operate. The contracts were awarded in:

- Coal trucking
- Weighbridge cleaning services
- Gardening and landscaping
- Canteen services
- Car washing
- Laundry services

North Block Complex

NBC has committed to proactive initiatives to ensure constructive participation by HDSAs in various NBC business opportunities. We encourage fair competition and embrace and/or give preference to all HDSA suppliers with capacity, who have strong BEE credentials and especially suppliers from our local host communities. Compliance with Broad-based Black Economic Empowerment (BBBEE) constitutes a material condition of NBC’s contractual terms with its suppliers and as such implementation of BBBEE programmes and initiatives by suppliers is monitored for compliance. With the overarching aim of redressing the imbalances of the past and improving the lives of HDSAs, all our businesses are encouraged to engage with external suppliers with strong BEE/BBBEE credentials or those making a concerted and tangible attempt to transform their business in order to be BEE/BBBEE compliant as set out in the preferential procurement requirements.

Corporate social investment

Community development is an integral part of our strategic commitment to the sustainable development of the communities in which we operate and the lives that we touch throughout our business value chain. We believe that this investment will result in the socio-economic independence of the people surrounding our areas of operations, beyond our mining activities. We actively support projects and have rolled out various CSI programmes which positively impact the communities in which we operate.

Kangala Colliery

Proudly sponsored:

- School bags, flasks and power banks for 300 at a DMR Leaners Focus event
- First aid kit and ambulance service during Delmas Laerskool rugby event
- Soccer kits, balls and boots for five soccer teams in Wolwenfontein area
- Video filming and sound system for VLKM mining summit
- Hospital bed for Sundra Primary School
- Water tanks for Eloff community
- Food parcels and blankets for distribution on Mandela Day in the neighbouring community
- School desks for Delpark Primary School and Sizuzile Primary School

New Clydesdale Colliery

Proudly sponsored:

- Erection of palisade fencing at Albion village
- Soccer kit for Rietspruit soccer team
- Fire incident (relief aid) to Albion village
- Laptops and stationery to the South African Police Services
- Soccer tournament at Vandyk village
- Installation of floor tiles at Springbok Primary
- Take a girl child to work on Mandela Day for the South African Police Services

SUSTAINABILITY REPORT continued

SOCIO-ECONOMIC DEVELOPMENT

Local economic development

New Clydesdale Colliery

NCC completed the refurbishment and improvement of the local Klipfontein Dam recreational park in FY2019 and have commenced with two similar projects; Ga-Nala recreational park and Thubelihle stadium upgrade projects.

The Klipfontein Dam project entailed but was not limited to, fencing the park, renovation of existing infrastructure such as ablution blocks, building of braai facilities, installation of a suitable waste management facility, a guardhouse and a controlled access gate. Construction work was awarded to a local community supplier, who in turn hired labourers from the community thereby creating jobs for local community members. It is hoped that the renovated recreational area will eliminate criminal activity that occured in the park due to lack of controlled access and that it will also generate some revenue for the local municipality.

North Block Complex

SATURDAY SCHOOL INITIATIVE

NBC, in partnership with the Department of Basic Education, invested in education to improve learner performance, especially in mathematics and science. During Q2 FY2019, NBC funded, the Emakhazeni Saturday School Initiative. The initiative's focus is on:

- Learner development
- Teacher development
- School governing body development

The learner development programme aims to develop Grade 12 learners from eight schools in the Emakhazeni circuit. The programme entails supplementary classes on Saturdays and during school holidays. Teacher development involves training teachers on pedagogical content knowledge teaching mostly in STEM subjects (science, technology, engineering and mathematics). The Emakhazeni circuit has subsequently seen a marked improvement in students results in the mathematics and science subjects.

School governing development involves training the school governing body members to improve their role in line with the provisions of the South African Schools Act of 1996. Among the designated roles assigned to school governing bodies is to improve the school and ensure its development. The impact of this initiative and the results of learners is monitored on a continual basis to ensure success.

Human resources development

We have identified education as a major driving force to help change the lives of the youth in our host communities and therefore offer skills training programmes, internships and learnerships, higher education funding and are helping to build further education facilities and making donations to local community schools.

BURSARY FUND

38 students awarded bursaries

Kangala Colliery

In FY2019, we awarded two additional comprehensive bursaries to university students, studying engineering. The beneficiaries, two male students, are from the Phaphamani and Swartklip secondary schools, situated in the local municipality.

A total of 12 bursaries, including technical and vocational education and training (TVET) bursaries, were awarded in FY2019.

North Block Complex

Ten permanent employees were awarded TVET college bursaries in both mining and engineering to ensure they are ready for learnership programmes within the mine. In addition, five permanent employees were enrolled at a TVET college in Q2 FY2019 for N2 engineering subjects. Four community candidates were also funded to complete their National Accredited Technical Education Diploma courses at the TVET college.

In total, 19 TVET bursaries were awarded in FY2019.

New Clydesdale Colliery

We awarded another two comprehensive bursaries in FY2019 to university students who come from previously disadvantaged families, studying core mining related fields and finance. The current beneficiaries of NCC bursaries, two female and three male students, are from Rietspruit, Witbank, Clewer and Lydenburg Secondary Schools, situated in the local municipalities surrounding our operations.

The total of seven bursaries, including TVET bursaries, were awarded in FY2019.

SUSTAINABILITY REPORT continued

SOCIO-ECONOMIC DEVELOPMENT

At Universal Coal, we believe that a skilled community positively contributes to the success of our business. We see education as a strategic asset and as such, embarked on funding training programmes for the interested and affected communities at a recognised and accredited South African Colliery Training College (CTC).

Community training programmes

Kangala Colliery

5 *apprentices registered to study electrical and fitter courses at an accredited CTC*

10 *students completed a basic blasting course, with five absorbed by the mine subcontractor*

9 *students completed Adult Basic Education and Training level 4 and were certificated*

10 *learnership opportunities were awarded to unemployed community youths to study basic welding and obtain certification*

40 *community unemployed youths were trained on articulated dump truck and excavator machines, 29 were absorbed by Universal's subcontractor*

10 *candidates obtained motor vehicle learner and driver licenses having undertaken a programme initiated when a gap was identified during a skills audit*

10 *community members were trained on basic coal preparation at CTC and one was employed by Kangala's subcontractor*

6 *SMME beneficiaries completed business analysis courses*

10 *candidates successfully completed sewing training and are now certificated*

New Clydesdale Colliery

2 *students from local communities were identified and offered a three-year apprenticeship in electrical and mechanical engineering fields*

North Block Complex

22 *local members enrolled and successfully completed trackless mobile machinery operator training and 17 were employed by the mine and its contractors*

14 *candidates enrolled in an advanced coal preparation, competent person and blasting assistance course; 11 successfully completed the programmes and eight were subsequently employed*

11 *employees and 12 community candidates were registered in agriculture and civil portable skills training*

Learnership/internship programmes

Kangala Colliery

6 *graduates awarded a two-year internship in environmental management (three graduates), mining engineering (two graduates) and electrical engineering (one graduate)*

New Clydesdale Colliery

3 *students offered a three-year internship in electrical and mechanical engineering*

North Block Complex

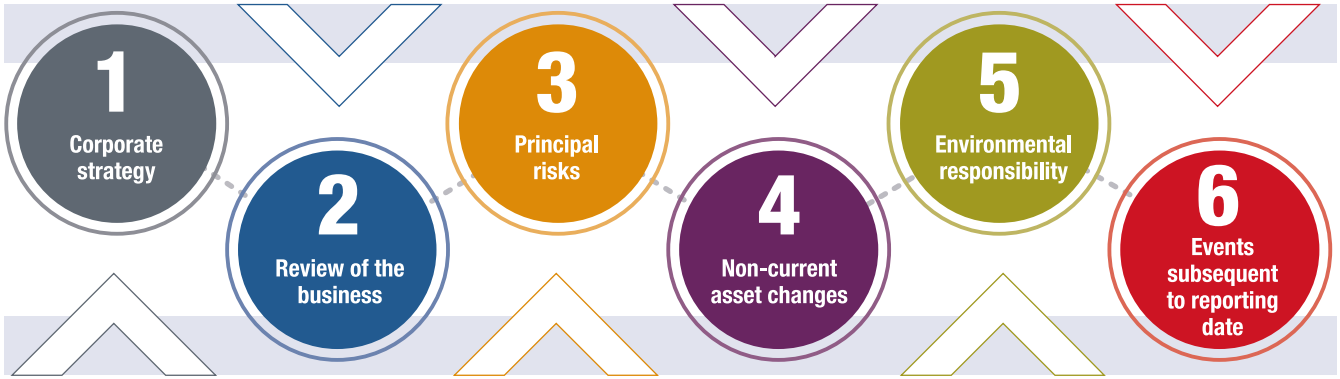
3 *graduates awarded a two-year internship in geology*

1 *employee offered engineering learnership in boiler making*

4 *students awarded learnership in boiler making, diesel mechanic, electrical and fitter*

STRATEGIC REPORT

Universal is a multi-mine thermal coal producer with a solid project expansion and development pipeline.



The Directors present their Strategic report with the statutory financial statements of the Group and the Company for the year ended 30 June 2019.

1 Corporate strategy

Universal Coal's strategy is to become the next mid-tier, lowest cost quartile coal mining company in South Africa, delivering long-term value to shareholders. We intend to achieve this lowest cost quartile by:

Taking advantage of our multi-disciplinary skills set, experience and relationships developed over 30 years

Expanding our existing thermal coal production and resource footprint in the Emalahleni (previously Witbank) Coalfield through organic growth

Advancing our substantial coking coal project, located within South Africa's emerging Soutpansberg Coalfield

Assessing additional coal assets around our key focus areas that support sustainable growth

Continually improving safety performance across all sites

2 Review of the business

The results for the year and financial position of the Company and Group are as shown in the financial statements.

The principal activity of the Group in the year under review was that of coal mining, coal beneficiation and mineral exploration and development of coal interests in South Africa.

The function of the business review is to provide a balanced and comprehensive review of the Group's performance and developments during the year and its position at year-end. The review also covers the principal risks and uncertainties faced by the Group.

Kangala Colliery

Production and sales ('000t)

	For the financial year ended		
	30 Jun 2019	30 Jun 2018	% change
ROM coal production	**3 865**	4 025	(4)
Export sales	**17**	65	(73)
Domestic sales	**2 386**	2 544	(6)
Total coal sales	**2 404**	**2 610**	**(8)**

Kangala Colliery is located in the Emalahleni area, which is approximately 65km from Johannesburg in the Mpumalanga province of South Africa and consists of the Wolwenfontein and Middelbult Projects.

Once again, Kangala Colliery achieved nameplate production and sales volumes for the year and delivered on its commitments under the CSA with Eskom, the South African energy generator. The CSA was executed in 2014 and has a termination date of 2023, unless extended by mutual agreement. The Colliery depleted the export quality coal seams during the period having sold 17 362t at spot RB1 coal prices to Universal's offtake partners at NCC.

ROM tonnages for the year decreased by 4% year-on-year with a total of 3 865 246t mined (2018: 4 025 496t) and sales volumes decreased 8% from 2 609 920t in FY2018 to 2 403 660t in FY2019. Kangala experienced a slight reduction in production days due to two separate incidents of industrial labour action. Notwithstanding, Kangala still achieved its forecast tonnages for FY2019 maintaining its nameplate production and sales volumes.

Total revenue per tonne[1] at Kangala was 7% higher than the previous corresponding period (pcp) at A$47.4 (2018: A$44.5) per tonne. The revenue per domestic tonne sold was 10% higher at A$47.1 (2018: A$43.0) for the period due to the standard annual price increase as per the Eskom CSA. The effect of the weakening export price is negligible in the Kangala revenue calculation.

Cash costs per run-of-mine tonne (ROMt) of A$20[2] (2018: A$19) have increased by 7% which is in line with annual supplier contract price escalations. Strip ratios have remained constant for the year at 1.8:1 bank cubic metres per tonne (bcm/t).

The gross profit margin for the 2019 financial year decreased to 21% (2018: 24%) while EBITDA/t decreased by 4% from A$15.18 to A$14.62 per tonne. The overall yield at Kangala was 6% less than in FY2018 reducing from 67% to 61% owing to declining *in situ* coal qualities. The decrease in gross profit margin is due to increased rehabilitation work that is being done at the operation as the current pit is reaching the end of its life.

Total headcount at Kangala, including contractors, is 610 of which 62 people are directly employed and 16 are enlisted in a graduate training programme.

Kangala Colliery achieved exceptional safety results with only one LTI incident reported during FY2019.

New Clydesdale Colliery

Production and sales ('000t)

	For the financial year ended		
	30 Jun 2019	30 Jun 2018	% change
ROM coal production	**2 993**	3 031	(1)
Export sales	**835**	767	9
Domestic sales	**1 700**	1 373	24
Total coal sales	**2 535**	**2 140**	**18**

NCC is located in the Kriel district, approximately 149km from Johannesburg, and consists of the Roodekop and Diepspruit Projects.

The Colliery has concluded its second full year of nameplate production and reported an 18% increase in coal sales from the pcp. In FY2019, NCC mined a total of 2 993 225 ROM tonnes (excluding discard), a 1% decrease compared with 3 031 906t in the prior financial year. NCC sold a total of 2 535 093t in FY2019 (2018: 2 139 661t) of which 835 202t was premium export quality thermal coal.

NCC has a long-term offtake agreement with a global trader for the supply of 650kt per annum of premium export quality thermal coal (6 000kcal, 15% ash). In addition, NCC has a CSA with Eskom for the supply of 1.6Mtpa of thermal coal to the local power generator.

Total revenue per sales tonne at NCC decreased by 3% from A$68 per tonne to A$66 per tonne due to the weakening export coal commodity price. The revenue per export tonne decreased by 8% from A$114 to A$105 per tonne. The revenue for domestic coal increased by 12% from the pcp to an average of A$46 per tonne due to pricing escalations contained within the CSA and the increase in coal quality produced during the current year.

The cash costs per ROMt decreased by 11% from A$47.80 in FY2018 to A$42.36 in FY2019 due to a significant decrease in the operating costs for coal processing at the Colliery. Capital improvements to the processing plant increased the yield by 1% and also resulted in a significant saving in unit costs. Substantial capital expenditure was incurred at NCC to enhance the operating and beneficiation capabilities of the Colliery. The largest capital project was the plant modification of the ROM crusher and fines beneficiation circuits. The improved plant functionality has also been reflected in a 1% increase in gross profit margin from 26% to 27% from the prior financial year.

Mining costs increased slightly above the inflationary increase due to the open-cast strip ratios which moved from 2.61 in FY2018 to 3.23 in the current financial year. Average normalised EBITDA/t achieved was A$15.2/t, a decrease of 21% from the prior financial year, owing mainly to the reduced international RB1 coal pricing environment.

Total headcount at NCC, including contractors, is 1 334 of which 60 people are directly employed and 11 are enlisted in a graduate training programme.

NCC achieved satisfactory safety results with five LTI incidents reported during FY2019.

NCC was originally registered as two separate legal entities: Universal Coal Development IV (Pty) Limited (UCDIV) and Universal Coal Development VIII (Pty) Limited (UCDVIII). The amalgamation of these entities commenced in the previous financial year. The Company received a Section 102 authorisation from the DMR to move the Mining Right previously held within UCDVIII to UCDIV during FY2018. All other conditions to the amalgamation were met on 20 September 2018 and the Colliery has now been legally combined as one entity, referred to as NCC.

[1] *Revenue per tonne is calculated by dividing revenue from product sales, excluding transport and other income, by tonnes of product sold*

[2] *Cash cost per tonne is calculated based on total cost of sales, plus operating and support costs, less depreciation, transport revenues and sundry income divided by ROM tonnes mined in the period*

STRATEGIC REPORT continued

North Block Complex

Production and sales ('000t)

	For the financial year ended		
	30 Jun 2019	30 Jun 2018	% change
ROM coal production	2 049	–	100
Export sales	–	–	0
Domestic sales	1 782	–	100
Total coal sales	**1 782**	**–**	**100**

NBC was only acquired on 1 November 2018, therefore no comparative data has been reflected

NBC is located in close proximity to Belfast, Mpumalanga province of South Africa and consists of Glisa and Eerstelingsfontein operating mines and the undeveloped Paardeplaats Prospecting Right (adjacent to Glisa). NBC is the third operating colliery incorporated under the Universal Coal banner and its acquisition and incorporation was effective on 1 November 2018. Since the effective date, NBC produced a total of 2 049 483t of ROM coal through opencut mining and achieved sales volumes of 1 781 999t.

NBC averaged a cash cost per ROMt of A$29.05 and an average revenue of A$43 per tonne for the 2019 financial year. EBITDA/t was A$8 for the period since acquisition to the end of FY2019.

The Company has assumed the ownership of Paardeplaats as at the effective date of the acquisition even though the Company has not yet received the DMR Section 11 transfer of ownership approval. The acquisition of the Paardeplaats Project could not be separated from the current asset acquisition and has protection clauses in the sale and purchase agreement in the event that the Section 11 is not received by June 2020. The Company is confident that the granting will be issued in due course.

Total headcount at NBC, including contractors, is 918 of which 96 people are directly employed and seven are enlisted in a graduate training programme.

NBC achieved satisfactory safety results with one LTI incidents reported during FY2019.

Project review

Ubuntu Colliery (Ubuntu) (Universal 49%)

Universal commenced the development of its fourth operation, Ubuntu Colliery, following the acquisition of the surface rights during the Q3 FY2019. Universal holds all regulatory approvals required to commence development of the project. Subsequent to year end, the Company committed to a CSA with power utility Eskom for the annual supply of 1.2Mt of domestic thermal coal. Operations commenced during August 2019 and the first coal sales are forecast for November 2019.

Eloff Project (Eloff) (Universal 49%)

The Eloff Project, situated directly adjacent to Kangala Colliery, provides an opportunity for Universal to consolidate the contiguous resource base with Kangala. Universal is currently undertaking technical and economic studies to assess the potential for Eloff to extend Kangala's LoM and/or to upscale the operation.

The Eloff Mining Right and Environmental Authorisation have been granted respectively by the DMR and the Department of Environmental Affairs. The Company is aware of the Environmental Authorisation and Mining Right appeal lodged with the DMR subsequent to granting of the Mining Right and which the DMR is currently reviewing.

Universal is in the process of lodging an application for an IWUL.

Berenice and Cygnus Projects

The Berenice and Cygnus Projects remain significant metallurgical coal assets located in the Soutpansberg Coalfield in the Limpopo province of South Africa. The Berenice and Cygnus Projects have resources in excess of 1.35Bt. A Mining Right application was submitted over the Berenice Project to the authorities in December 2015 and has been accepted by the DMR. An Environmental Impact Assessment has been commissioned.

Company financial position at June 2019

The Group's total cash balance representing both restricted and unrestricted balances at the end of June 2019 is A$32.6 million (2018: A$36.8 million), and the total cash generated by the operation during the period increased from A$64.1 million to A$ 90.9 million for the June 2019 period. Apart from capital and debt repayments and the investment in new operations the company returned A$15.6 million to shareholder dividends.

The Group increased the net book value of property, plant and equipment by A$ 35.9 million. The increase was due to the A$14.9 million of assets acquired as part of the NBC acquisition and A$33.2 million of standard operational additions relating to the plant additions and the Eloff and Ubuntu land acquisitions.

The most significant item in the Intangibles increase relates to the Paardeplaats exploration assets of A$59.3 million acquired as part of NBC acquisition and the consolidation of the Eloff exploration asset of A$20.5 million upon taking control in July 2018. The current assets (inventory and receivables) are due to the inclusion of the Companies third operating colliery by June 2019.

Total borrowings outstanding at year end decreased by A$11.4 million due to mandatory payment commitments and a voluntary payment to Investec of A$10 million. The current borrowings consist of the Investec finance facilities at Kangala and NCC and also the mortgage bond over the Eloff properties that was finalised during H1 of FY2019.

Provision for rehabilitation liabilities has increased significantly during the FY2019, from A$35.9 million to A$74.6 million. An increase of A$41.5 million is contributed by the rehabilitation liability acquired as part of the NBC, set off by a decrease in the NCC liability estimation of A$9.3 million.

Markets

Key performance indicators

Key performance indicators Directors monitor on a regular basis are:

- ROM tonnages, processing plant yields and sales tonnages
- Revenue per tonne
- Cash cost per ROMt
- Gross margin in percentage and gross margin per sales tonne
- EBITDA and EBITDA percentage of revenue on a monthly and year-to-date basis

Our strategic goals and measures	Risk		Measure 2019	Guidance 2020
			'000t	'000t
ROM tonnages, processing plant yields and sales tonnages				
Safely extracting maximum amount of financially feasible tonnes as indicated by conservative mine planning	*Operational*	Kangala	2.4	2.0
		NCC	2.5	2.8
		NBC	1.8	3.0
		Ubuntu	–	0.6
		Total	**6.6**	**8.4**
Profitability and margin				
• Continues focus to remain a low cost producer and protect the margins of the Group • Focus on profitability of every tonne sold – EBITDA/t sold • Manage exposure to export commodity price • Ensure capital expenditure translates in more efficient mining or savings in unit costs	*Operational/commodity price risk*		A$98,2 million	
Safety and sustainable operations				
• Add value to our local communities • Placing the safety of our employees above profits • Environmentally respectfull mining and compliance to regulation	*Operational risk*	Kangala	0,11	
		NCC	0,29	
		NBC	0,22	
		Ubuntu		
Dividend yield				
Company remains focussed on the projected dividend yield of 45% of attributable net profit after tax Dividend yields remain subject to cash flow avaialability and the groups capex requirements	*Cash flow risk*		41% of attr NPAT	45% of attr NPAT
Organic growth and growth by acquisition				
In FY2019, NBC and the Eloff Project were succesfully incorporated in to the Universal business model FY2020 objectives include: • Succesful development of the Ubuntu Colliery • Succesful inclusion of the Paardeplaats Project for NBC • Inclusion of the Eloff Project as extension for the Kangala life	*Development risk/cash flow risk/ Environmental and regulatory risk*			

STRATEGIC REPORT continued

3 Principal risks

The management of the business and the execution of the Group's strategy are subject to a number of risks.

Risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate them. If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the Group. A strategic risk assessment has been conducted and a risk management process to mitigate identified risks that are applicable has been adopted by the Group.

The key business risks affecting the Group are set out below.

Principal risks

Operational risk

Mining operations are subject to hazards normally encountered during mining and processing that may result in failure to achieve the expected grade as predicted during exploration and development. These include unexpected geological formations, rock falls, flooding, dam wall failure, adverse weather conditions, regulatory and industrial stoppages and other incidents or conditions which could result in damage to plant or equipment, the environment or interruptions to coal production and sales and which could impact production throughout. Although it is intended to take adequate precautions to minimise risk, there is a possibility of a material adverse impact on the Group's operations and its financial results. The Group has adopted policies supporting the producing collieries and will maintain policies appropriate to the stage of development of its various other projects.

Development risk

The development of new coal projects is affected by risks that could cause the delay in development milestones or could cause an increase in the estimated development costs. Due care is taken to ensure that sufficient funding is in place to guarantee the successful development and the ability to fund costs until the project is able to generate independent revenue.

Cash flow risk

The risk that the Group's operations are unable to generate sufficient cash flow to meet their operational commitments and debt funding repayments could have a negative effect on the Company's going concern ability. The Group's operations were able to meet all their commitments for the period under review and service head office and corporate expenses by means of managements fees and distributions. The Directors regularly review cash flow requirements to ensure the Company can meet financial obligations as and when they fall due.

Commodity price risk

Factors beyond the control of the Group may affect the marketability of any minerals discovered. Coal prices are subject to volatile price changes from a variety of factors including international economic and political trends, expectations of inflation, global and regional demand, currency exchange fluctuations, interest rates and alternative energy resource development. The Group ensures that all projects are subjected to detailed feasibility studies to ensure a reasonable level of confidence appropriate to the circumstance under consideration. All operational feasibility is monitored on an ongoing basis by applying market forecast prices and indicators to the operational financial models. The Group also mitigates the risk of commodity price risk by securing long-term offtake agreements.

Other risks

Speculative nature of mineral exploration and development

Development of the Group's mineral exploration properties is contingent upon obtaining satisfactory exploration results. Mineral exploration and development involves substantial expense and a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to adequately mitigate. The degree of speculative exploration risk reduces substantially when the Group's properties move from the exploration phase to the development phase. The Group mitigates this risk as far as possible through the completion of detailed technical feasibility studies, environmental impact assessments, entering into offtake agreements and completing detailed due diligence activities.

Resources and Reserves risk

The future success of the Company will depend on its ability to find or acquire coal reserves that are economically recoverable. There can be no assurance that the Company's planned exploration activities will result in significant resources or reserves or that it will have success mining coal. Even if the Company is successful in finding or acquiring coal reserves or resources, reserve and resource estimates are estimates only and no assurance can be given that any particular level of recovery from coal resources or reserves will in fact be realised or that an identified coal resource will ever qualify as commercially viable which can be legally and economically exploited.

Financial instrument risk

The Company and Group are exposed to risks arising from financial instruments held. These are discussed in note 29 of the financial statements.

Strategic risk

Significant and increasing competition exists for mineral acquisition opportunities throughout the world. As a result, the Group may be unable to acquire rights to exploit additional attractive mining properties on terms it considers acceptable. Accordingly, there can be no assurance that the Group will acquire any interest in additional operations that would yield reserves or result in commercial mining operations. The Group expects to undertake sufficient due diligence where warranted to help ensure opportunities are subjected to proper evaluation.

Commercial risk

The mining industry is competitive and there is no assurance that, even if commercial quantities of coal are discovered, a profitable market will exist for the sale of such coal. There can be no assurance that the quality of the coal will be such that the Group's properties can be mined economically.

Environmental and regulatory risk

Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees.

There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Group's operations. Environmental and employee health and safety laws and regulations have tended to become more stringent over time. Any changes in such laws, or in the environmental conditions at the Group's properties, could have a material adverse effect on the Group's financial condition, cash flows or results of operations.

Failure to comply with applicable environmental and health and safety laws can result in injunctions, damages, suspension or revocation of licences and the imposition of penalties. Whilst endeavouring to do so, there can be no assurance that the Group has been or will be at all times in complete compliance with such laws, regulations and permits, or that the costs of complying with current and future environmental and health and safety laws and permits will not adversely affect the Group's business, results of operations, financial condition or prospects.

Political risk

Political and regulatory instability has been the cause of major investment uncertainty in the South African mining space. The DMR unveiled new rules for BEE, including more rigorous ownership requirements, increased expectations on skills development, and expanded quotas for buying goods and services from black-owned companies. That said though, the Group is in a fortunate position that it fulfils nearly all obligations in the revised Mining Charter in its current format.

4 Non-current asset changes

Rounding of amounts

All amounts are presented in A$ unless otherwise noted.

Details of major changes in the nature of the non-current assets of the Group during the year were as follows:

Universal Coal Development I (Pty) Limited (Kangala Colliery)

Kangala Colliery is operating at steady state production and successfully contributes to the Group by way of management fees and dividend distributions.

There was no change in the Group's ownership percentage in the year under review.

STRATEGIC REPORT continued

Universal Coal Development II (Pty) Limited (Berenice Project)

Universal Coal has applied to the relevant authorities for a Mining Right (accepted by the DMR) over the Berenice Project and has commissioned an environmental impact assessment.

There was no change in the Group's ownership percentage in the year under review.

Universal Coal Development III (Pty) Limited (Ubuntu Colliery)

Ubuntu Colliery is fully regulated with a Mining Right, NEMA as well as an IWUL and has a committed CSA with Eskom. The Company has commenced the development of Ubuntu Colliery and expects first product to be delivered during November 2019.

During the year, the Group's ownership percentage was reduced to 49% to adhere to regulatory requirements for offtake agreements.

Universal Coal Development IV (Pty) Limited (NCC)

As UCEHSA has operational control over UCDIV, it is exposed to and has rights to variable returns from its involvement with these entities, and has the ability to affect those returns through its operational control contained in the operating and management agreement over UCDIV. The investment continued to be accounted for as a subsidiary for the 2019 financial period.

NCC was originally registered as two separate legal entities and the amalgamation of UCDIV and UCDVIII commenced in the previous financial year. The Company received a Section 102 authorisation from the DMR to move the Mining Right previously held within UCDVIII to UCDIV during FY2018. All other conditions to the amalgamation were met on 20 September 2018 and the Colliery has now been legally combined as one entity and is referred to as NCC.

There was no change in the Group's ownership percentage in the year under review.

Eloff Agriculture and Mining Company (Pty) Limited (Eloff Project)

During the year, NCC acquired the remaining ownership in the Eloff Project and holds 100% of the shares at June 2019. Universal holds an effective shareholding of 49% in the Eloff Project through its investment in NCC.

Manyeka Coal Mines (Pty) Limited (Manyeka)

As part of the acquisition of the Eloff Project, NCC acquired 100% of Manyeka. Manyeka holds a 51% investment in the Eloff Project. The Company aims to simplify the Company structure which will result in the liquidation of Manyeka once the shareholding of Eloff held by Mayeka has been transferred to NCC.

Universal Coal Development V (Pty) Limited (Cygnus Project)

Universal Coal has applied to the relevant authorities for a Mining Right (accepted by the DMR) over the Cygnus Project and awaiting granting of this.

There was no change in the Group's ownership percentage in the year under review.

Universal Coal Development VI (Pty) Limited

There was no change in the Group's ownership percentage in the year under review.

Universal Coal Development VII (Pty) Limited (SPV for additional coal projects)

There was no change in the Group's ownership percentage in the year under review.

Twin Cities Trading 374 (Pty) Limited (Darwina Louw 254 IR and Strehla 261 IR application)

There was no change in the Group's ownership percentage in the year under review.

Epsimax (Pty) Limited

There was no change in the Group's ownership percentage in the year under review.

Episolve (Pty) Limited

There was no change in the Group's ownership percentage in the year under review.

Bold Moves 1765 (Pty) Limited

There was no change in the Group's ownership percentage in the year under review.

Universal Coal Logistics (Pty) Limited

There was no change in the Group's ownership percentage in the year under review.

Universal Coal Power Generation (Pty) Limited

There was no change in the Group's ownership percentage in the year under review.

5 Environmental responsibility

The Group recognises that its activities require it to have regard to the potential impact that it, its subsidiaries and partners may have on the environment. Where mining, exploration and development works are carried out, care is taken to limit the extent of disturbance and where any such works are necessary, they are carried out as and when required.

6 Events subsequent to reporting date

On 28 August 2019, the Board declared a final gross cash dividend in respect of the year ended 30 June 2019 of A$0.01 (2018: A$ 0.01) per share. The dividend is declared in Australian dollars and is subject to shareholder approval at the 2019 annual general meeting (AGM).

On behalf of the Board

John Hopkins OAM
Chairman
27 September 2019

SECTION 4:

GOVERNANCE

Accountability, TRANSPARENCY & FAIRNESS

DIRECTORS' REPORT

The Directors present their report with the statutory financial statements of the Group and the Company for the year ended 30 June 2019.

1. Review of the business

Please refer to the relevant section contained within the Strategic report.

2. Financial risk management

Please refer to the relevant section contained within the Strategic report.

3. The Board of Directors and officers of the Company

The Board ordinarily meets on a quarterly basis and as and when further required, providing effective leadership and overall management of the Group's affairs through the schedule of matters reserved for its decision. These include the approval of the budget and business plan, major capital expenditure, acquisitions and disposals, risk management policies, executive remuneration policies and the approval of the financial statements. Formal agendas, papers and reports are sent to the Directors, in a timely manner, prior to the Board meetings. The Board may delegate certain responsibilities to Board committees and the CEO.

All Directors have access to the advice of the Company Secretary and the ASX Liaison Officer who are responsible for ensuring that all Board procedures are followed and ASX Listing Requirements are adhered to. Any Director may take independent professional advice, in consultation with the Chairman first, at the Company's expense, in the furtherance of his or her duties.

A full review of the Company's Corporate Governance review has been performed for the FY2019 and can be found at http://www.universalcoal.com/about-us/corporate-governance/

Directors who held office during the 2019 year

Member	Position	Nationality	Resignation
John Hopkins OAM (Chair)	Independent, Non-executive Director	Australian	
Tony Weber	CEO and Executive Director	South African	
Shammy Luvhengo	Executive Director	South African	
Henri Bonsma	Independent, Non-executive Director	South African	
Carlo Baravalle	Non-executive Director	British	
David Twist	Non-executive Director	British	
Nonkululeko Nyembezi	Non-executive Director	South African	Resigned 3 May 2019
Andries Engelbrecht	Non-executive Director	South African	Resigned 3 May 2019

The composition of the Board reflects a wealth of minerals exploration and mine development experience.

The Company Secretary is Benjamin Harber (United Kingdom) and the ASX Liaison Officer is Anna Sandham (Australia).

4. Directors' meetings

Eight Board meetings were held during the year to 30 June 2019

Member	Number of meetings eligible to attend	Number of meetings attended
John Hopkins OAM (Chair)	8	8
Tony Weber	8	8
Henri Bonsma	8	8
Carlo Baravalle	8	8
David Twist	8	8
Shammy Luvhengo	8	8
Nonkululeko Nyembezi	7	7
Andries Engelbrecht	7	2

5. Committee meetings

Two Audit and Risk Committee meetings were held during the year to 30 June 2019

Member	Number of meetings eligible to attend	Number of meetings attended
Henri Bonsma	2	2
John Hopkins OAM	2	2
Carlo Baravalle	2	2
Nonkululeko Nyembezi	2	2

DIRECTORS' REPORT continued

Two Remuneration Committee meetings were held during the year to 30 June 2019

Member	Number of meetings eligible to attend	Number of meetings attended
Henri Bonsma	2	2
John Hopkins OAM	2	2
David Twist	2	1
Andries Engelbrecht	1	1

6. Dividends

On 28 August 2019, the Board declared a final gross cash dividend of A$0.01 (2018: A$0.01) per share in respect of the year ended 30 June 2019. The dividend is declared in Australian dollar and is subject to shareholder approval at the AGM for 2019. The total dividend, including the interim dividend of A$0.02, comes to A$0.03 for the period ending 30 June 2019.

7. Going concern

The accounts have been prepared on the going concern basis. At the year end, the Group had A$31.3 million (2018: A$33.5 million) of unrestricted cash reserves and A$0.8 million (2018: A$3.3 million) of restricted cash.

The Universal group of companies has experienced significant growth during the year and this has been reflected in the increased profitability and volume growth during the period. The Company generated A$90.9 million of cash from three operating collieries. The Company has a proven track record of implementing cost effective operations and the ability to deliver on all production commitments. The Company generates sufficient cash flows to support debt repayments, capital requirements, operating costs (including head office overheads). The Company forecast is based on similar operational volumes and costing as in the 2019 financial year, and even with the assumption of the current subdued export pricing, the Directors are satisfied that the Group has adequate resources to continue as a going concern for a period of not less than 12 months from the date of approval of these financial statements.

8. Capital structure and share issues

Capital structure at 30 June 2019

	Million
Current issued ordinary share capital (shares)	522

Ordinary share issues during the year

No ordinary shares have been issued during the year under review.

9. Remuneration report

This report outlines the remuneration arrangements in place for Directors and executives of Universal Coal.

The overall strategic aim of Universal Coal's reward management is to develop and implement the reward policies, processes and practices required to support the achievement of the organisation's goals by helping to ensure that Universal Coal can attract and retain competent, well-motivated and committed people.

The philosophy underpinning the strategy is that people should be rewarded for the value they create.

Remuneration

Salary/fees

Executive Directors are paid a fixed salary which is paid monthly in arrears per the service agreement for services rendered as an employee of Universal Coal.

Non-executive Directors are paid a fixed annual fee for acting as a Director of Universal Coal which is paid monthly in arrears for services rendered as a Director.

Other payments

No other payments are due to Directors (2018: A$ nil).

Share options

As noted in Section 10 of the Directors' report, there have been no share options issued to Directors in the year (2018: A$ nil).

Short-term cash incentives

The Executive Directors received a discretionary performance-based annual bonus, of varying percentages, of their previous year's annual salary. The short-term cash incentive scheme, paid to the Directors for the period ending June 2018, was also discretionary and based on 50% of their previous year's annual salary.

Long-term benefits

No long-term benefits were paid during the year (2018: A$ nil).

Termination payments

No termination fees were paid to Directors during the year (2018: A$ nil).

Service contracts

Tony Weber

Executive service agreement

- Commencement date: 1 July 2011
- Salary and Directors' fees payable from 1 July 2018: A$500 000 per annum
- Termination is subject to 12 months' notice by either party

Shammy Luvhengo

Executive service agreement

- Commencement date: 1 July 2011
- Salary and Directors' fees payable from 1 July 2018: A$400 000 per annum
- Termination is subject to three months' notice by either party

John Hopkins OAM

Non-executive service agreement

- Commencement date: 1 September 2010
- Directors' fees payable from 1 July 2018: A$118 000 per annum
- Termination is subject to three months' notice by either party

Henri Bonsma

Non-executive service agreement

- Commencement date: 1 December 2009
- Directors' fees payable from 1 July 2018: A$80 000 per annum
- Consultancy fees are payable at the rate of A$1 900 per day with a maximum of five days per month (paid to service company)
- Termination is subject to three months' notice by either party

David Twist

Non-executive service agreement (paid to African Minerals Exploration and Development GP SARL)

- Commencement date: 7 January 2013
- Directors' fees payable from 1 July 2018: A$80 000 per annum
- Termination is subject to Coal Development Holding B.V. (CDH) discretion and along terms contained within a subscription agreement or by a shareholders' resolution to remove

Carlo Baravalle

Non-executive service agreement (paid to African Minerals Exploration and Development GP SARL)

- Commencement date: 7 January 2013
- Directors' fees payable from 1 July 2018: A$80 000 per annum
- Termination is subject to CDH's discretion and along terms contained within a subscription agreement or by a shareholders' resolution to remove

Nonkululeko Nyembezi

Non-executive service agreement (paid to IchorCoal N.V.)

- Commencement date: 16 October 2014
- Resignation date: 3 May 2019
- Directors' fees payable from 1 July 2018: A$80 000 per annum paid *pro rata* until resignation date

Andries Engelbrecht

Non-executive service agreement (paid to IchorCoal N.V.)

- Commencement date: 16 October 2014
- Resignation date: 3 May 2019
- Directors' fees payable from 1 July 2018: A$80 000 per annum paid *pro rata* until resignation date

Post-employment benefits

Directors do not receive retirement benefits in any form upon termination of their employment or service.

DIRECTORS' REPORT continued

Directors' remuneration, company and consolidated

Nature and amount of each element of remuneration

	2019			2018		
Member	Short-term benefits: salary/ fees/consultancy	Short-incentive	Total	Short-term benefits: salary/ fees/consultancy	Short-incentive	Total
	A$	A$	A$	A$	A$	A$
Executive Director						
Tony Weber	**500 000**	**366 912**	**866 912**	458 640	196 000	654 640
Shammy Luvhengo	**400 000**	**191 646**	**591 646**	319 411	136 500	455 911
Non-executive Director						
Henri Bonsma	**196 405**	**98 089**	**294 494**	163 482	82 000	245 482
John Hopkins OAM (Chair)	**118 000**		**118 000**	118 000		118 000
David Twist	**80 000**		**80 000**	80 000		80 000
Carlo Baravalle	**80 000**		**80 000**	80 000		80 000
Nonkululeko Nyembezi	**73 333**		**73 333**	80 000		80 000
Andries Engelbrecht	**73 333**		**73 333**	80 000		80 000
Total	**1 521 071**	**656 647**	**2 177 718**	1 379 533	414 500	1 794 033

10. Share options

No share options were issued to Directors during the year (2018: nil).

11. Directors' interests

Member	Number of fully paid ordinary shares
Tony Weber	9 544 908
Henri Bonsma	5 990 158
John Hopkins OAM (Chair)	40 000
Shammy Luvhengo	2 200 000
David Twist [1]	165 556
Carlo Baravalle [1]	750 000

[1] *Nominated Director of CDH with an indirect interest of 143 467 056 CHESS Depository Interests (CDIs)*

12. Rounding of amounts

The Company is of a kind referred to in Australian Securities and Investments Commission (ASIC) Legislative Instrument 2016/191, issued by the ASIC relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with the class order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

13. Directors' indemnity

The Company has arranged appropriate Directors' and officers' insurance to indemnify the Directors against liability in respect of proceedings brought by third parties. Such provisions remain in force at the date of this report.

14. Events after the reporting period

Please refer to the relevant section contained within the Strategic report.

15. Future developments

The Company anticipates the 2020 financial year will require the Directors and management to focus on the following potential development activities:

- Development and ramp up of Ubuntu Colliery
- Obtain the Section 11 transfer of ownership approval for the Paardeplaats Project and commence development of the project
- Progress on regulatory approvals for the Eloff Project
- Secure the Mining Right at Berenice/Cygnus and continue with pre-feasibility and environmental studies

16. Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 47. Having made enquiries of fellow Directors, each of these Directors confirms that:

- To the best of each Directors' knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware
- Each Director has taken all the steps a Director might reasonably be expected to take to make himself or herself aware of any information needed by the Company's auditors for the purpose of their audit

On behalf of the Board

John Hopkins OAM
Chairman
27 September 2019

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing an annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements and have elected to prepare the Company financial statements in accordance with IFRS as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group for that period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business
- Prepare a Director's report and a Strategic report which all comply with the requirements of the Companies Act, 2006

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act, 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for ensuring that the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

The Directors confirm to the best of their knowledge:

- The Group financial statements have been prepared in accordance with IFRS as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group
- The Universal Coal Annual Report 2019 (including the Directors' report and Strategic report) includes a fair review of the development and performance of the business and the financial position of the Group and the parent company, together with a description of the principal risks and uncertainties that they face

On behalf of the Board

John Hopkins OAM
Chairman
27 September 2019

WAIVER OF TAKEOVER PROVISIONS BY ASX

Background

As Universal Coal is incorporated in England and Wales, the rights of shareholders are primarily governed by English law and the Company's Articles of Association (Articles). The Takeover Provisions in the Corporations Act do not apply to the Company. In the United Kingdom, the City Code on Takeovers and Mergers (City Code) regulates takeovers and substantial shareholdings. The Company is currently not subject to the City Code and the shareholders are not afforded any of protections under the City Code. As a result, any takeover offer for the Company or consolidation of control in the Company will not be regulated by Takeovers Provisions of the Corporations Act or the City Code.

The Company's Articles

The Articles contain certain limited takeover protections in Articles 18.1(b) to (e) (Takeover Provisions). The Takeover Provisions do not provide the full protections afforded by the Corporations Act or City Code.

In summary, the Takeover Provisions allow the Company's Board to impose "sanctions" (by way of a suspension of voting rights (Article 18.1(b)(iii)(A)) and by directing registered holders of shares to divest their interest in shares acquired above the threshold (Article 18.1(b)(iii)(B)) when:

- Shares in Universal are acquired above a specified threshold
- No follow-up offer is extended to shareholders generally

The acquisition threshold is 20%, unless the Board resolves under Article 18.1(b)(iii)(B) to increase it to 30%.

ASX Waiver

ASX Listing Rule 15.15 requires that a foreign company's constitution must not include provisions relating to takeovers and substantial shareholdings. In November 2015, the Company was granted a Waiver in respect of ASX Listing Rule 15.15 (Waiver). The Waiver permits the Articles to continue to include the Takeover Provisions and the sanctions mentioned above on a conditional basis.

The conditions of the Waiver include the following:

- No resolution is passed to apply the 30% threshold to Article 18.1(b)(i), Article 18.1(b)(ii) or Article 18.1(b)(iii)
- The Company does not enforce the Takeover Provisions in Article 18.1(c), Article 18.1(d)(i) and Article 18.1(e)
- The Company does not exercise the sanctions other than in accordance with the ruling of a competent court that a person or persons to whom Article 18.1(b)(iii) applies has failed or will fail to comply with that Article within the 21 day period referred to in that Article
- If the Company becomes subject to a law of any jurisdiction which applies so as to regulate the acquisition of control, and the conduct of any takeover of the Company, the Company will consult promptly with ASX. If ASX considers that amendment to the Takeover Provisions or the sanctions is required, and such amendment is not made to the satisfaction of ASX, the waiver shall cease to apply

A copy of the Company's Articles is available at www.universalcoal.com/wp-content/uploads/2014/04/Articles-of-Association-6-Oct-2014.pdf

The material effects of the Takeover Provisions as varied by the Waiver:

- The Board of the Company cannot resolve to increase the acquisition threshold from 20% to 30%, as it was previously able to do under Article 18.1(b)(iii)(B)
- The Board of the Company cannot exercise the power granted by Article 18.1(c) to require a shareholder to disclose to the Board any persons or entities who are affiliated persons of, or who are acting in concert with, that shareholder in respect of an interest in the shares of the Company
- The Board of the Company cannot enforce the Takeover Provisions in circumstances where the City Code applies to the Company. In such circumstances, shareholders would have the protections afforded to them under the City Code and any takeover offer would be subject to the jurisdiction of the UK Panel on Takeovers and Mergers
- The Board of the Company will not have the benefit of Article 18.1(e), which purported to limit the liability of the Board in respect of the way its discretions and powers were exercised in respect of the Takeover Provisions
- Before the Board of the Company exercises its rights in respect of the sanctions, it must first obtain a ruling from a competent court that:
  - a person (together with persons acting with him) has acquired an interest in the shares of the Company that is equal to or higher than the acquisition threshold that applies to that shareholding (Relevant Person)
  - the Relevant Persons would be obliged to make a mandatory offer to the other shareholders under the City Code (as adjusted for the purposes of article 18.1(b)), if the City Code applied to the Company (Mandatory Offer)
  - the Relevant Persons have failed or will fail to make a Mandatory Offer on terms no less favourable to the other shareholders than would have been required if the City Code had applied to the Company, within 21 days following the date on which such an obligation would have arisen

SECTION 5:

FINANCIALS

Delivering according to forecast

DESPITE MARKET DOWNTURN

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

as at 30 June 2019

		Group		Company	
		2019	2018	2019	2018
	Note	A$'000	A$'000	A$'000	A$'000
ASSETS					
Non-current assets					
Property, plant and equipment	5	**148 582**	112 630	**–**	–
Intangible assets	6	**116 811**	45 549	**–**	–
Investments in subsidiaries	7	**–**	–	**46 303**	48 901
Investments in associated undertakings	8	**36**	8 226	**–**	–
Loan receivable	9	**9 948**	10 575	**–**	–
Other financial assets	10	**4 094**	2 658	**–**	–
		279 471	179 638	**46 303**	48 901
Current assets					
Inventories	11	**5 484**	3 666	**–**	–
Current tax receivable		**243**	–	**–**	–
Trade and other receivables	12	**63 723**	44 417	**5 840**	1 318
Cash and cash equivalents (including restricted amounts)	13	**32 140**	36 872	**1 457**	1 802
		101 590	84 955	**7 297**	3 120
Total assets		**381 061**	264 593	**53 600**	52 021
EQUITY AND LIABILITIES					
Equity					
Share capital	14	**44 466**	44 466	**44 466**	44 466
Reserves	15	**(3 016)**	(8 695)	**625**	625
Retained earnings		**85 682**	63 415	**8 400**	6 863
Attributable to equity holders of parent		**127 132**	99 186	**53 491**	51 954
Non-controlling interest	7	**68 655**	38 747	**–**	–
Total equity		**195 787**	137 933	**53 491**	51 954

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION continued

as at 30 June 2019

		Group		Company	
		2019	2018	2019	2018
	Note	A$'000	A$'000	A$'000	A$'000
Liabilities					
Non-current liabilities					
Borrowings	16	**9 645**	21 997	**–**	–
Deferred tax	17	**27 079**	11 246	**–**	–
Provisions	18	**74 697**	35 900	**–**	–
Trade and other payables	19	**3 049**	–	**–**	–
		114 470	69 143	**–**	–
Current liabilities					
Borrowings	16	**11 923**	10 979	**–**	–
Current tax payable		**–**	3 867	**–**	–
Trade and other payables	19	**58 881**	42 671	**109**	67
		70 804	57 517	**109**	67
Total liabilities		**185 274**	126 660	**109**	67
Total equity and liabilities		**381 061**	264 593	**53 600**	52 021

The notes on pages 59 to 128 form part of the financial statements.

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The Group profit for the year includes a profit after tax of A$17 210 645 (2018: profit of A$1 780 137), which is dealt with in the financial statements of the parent company.

The financial statements of Universal Coal Plc, registered number 4482856, were approved by the Board of Directors and authorised for issue on 28 September 2019.

Signed on behalf of the Board of Directors

John Hopkins OAM
Chairman
27 September 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2019

		Group	
		2019	2018
	Note	A$'000	A$'000
Revenue		**434 790**	316 350
Cost of sales	21	**(314 791)**	(235 884)
Gross profit		**119 999**	80 466
Operating expenses		**(46 546)**	(27 711)
Operating profit	20	**73 453**	52 755
Finance income	22	**5 220**	3 797
Foreign exchange gain/(loss)		**123**	(70)
Bargain purchase gain	4	**20 687**	–
Share of profit of associated undertaking	8	**30**	187
Decrease in fair value of derivative financial liability		**–**	277
Finance expenses	23	**(6 897)**	(7 495)
Profit before taxation		**92 616**	49 451
Taxation	24	**(22 226)**	(13 479)
Profit for the year		**70 390**	35 972
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**6 505**	(3 580)
Other comprehensive income/(loss) for the year net of taxation		**6 505**	(3 580)
Total comprehensive income for the year		**76 895**	32 392
Profit attributable to:			
Owners of the parent		**37 941**	23 977
Non-controlling interest		**32 449**	11 995
Profit for the year		**70 390**	35 972
Total comprehensive income attributable to:			
Owners of the parent		**43 620**	20 982
Non-controlling interest		**33 275**	11 410
		76 895	32 392
Earnings per share			
Per share information			
Basic earnings per share (c)	30	**7.26**	4.59
Diluted earnings per share (c)	30	**7.26**	4.59

The notes on pages 59 to 128 form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2019

	Share capital	Foreign currency translation reserve	Convertible instrument reserve	Share based payment reserve	Total reserves	Retained earnings	Total attributable to equity holders of the group	Non-controlling interest	Total equity
	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000
Balance at 1 July 2017	44 466	(7 753)	2 053	130	(5 570)	49 758	88 654	34 249	122 903
Profit for the year	–	–	–	–	–	23 977	23 977	11 995	35 972
Other comprehensive loss	–	(2 995)	–	–	(2 995)	–	(2 995)	(585)	(3 580)
Total comprehensive income/(loss) for the year	–	(2 995)	–	–	(2 995)	23 977	20 982	11 410	32 392
Transfer between reserves	–	–	–	(130)	(130)	130	–	–	–
Dividends	–	–	–	–	–	(10 450)	(10 450)	(6 912)	(17 362)
Other movements within equity	–	–	–	(130)	(130)	(10 320)	(10 450)	(6 912)	(17 362)
Balance at 1 July 2018	44 466	(10 748)	2 053	–	(8 695)	63 415	99 186	38 747	137 933
Profit for the year	–	–	–	–	–	37 941	37 941	32 449	70 390
Other comprehensive income	–	5 679	–	–	5 679	–	5 679	826	6 505
Total comprehensive income for the year	–	5 679	–	–	5 679	37 941	43 620	33 275	76 895
Dilution of shareholding in subsidiary via new share issue	–	–	–	–	–	–	–	446	446
Dividends	–	–	–	–	–	(15 674)	(15 674)	(3 813)	(19 487)
Other movements within equity	–	–	–	–	–	(15 674)	(15 674)	(3 367)	(19 041)
Balance at 30 June 2019	44 466	(5 069)	2 053	–	(3 016)	85 682	127 132	68 655	195 787
Note	14	15	15			15		7 & 15	

The notes on pages 59 to 128 form part of the financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2019

	Share capital	Foreign currency translation reserve	Share based payment reserve	Total reserves	Retained income	Total equity
	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000
Balance at 1 July 2017	44 466	625	130	755	15 403	60 624
Loss for the year	–	–	–	–	1 780	1 780
Total comprehensive loss for the year	–	–	–	–	1 780	1 780
Transactions with owners						
Transfer between reserves	–	–	(130)	(130)	130	–
Dividends	–	–	–	–	(10 450)	(10 450)
Other movements within equity	–	–	(130)	(130)	(10 320)	(10 450)
Balance at 1 July 2018	44 466	625	–	625	6 863	51 954
Profit for the year	**–**	**–**	**–**	**–**	**17 211**	**17 211**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**17 211**	**17 211**
Transactions with owners						
Dividends	**–**	**–**	**–**	**–**	**(15 674)**	**(15 674)**
Other movements within equity	**–**	**–**	**–**	**–**	**(15 674)**	**(15 674)**
Balance at 30 June 2019	**44 466**	**625**	**–**	**625**	**8 400**	**53 491**
Note	14	15			15	

The notes on pages 59 to 128 form part of the financial statements.

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS

for the year ended 30 June 2019

		Group		Company	
		2019	2018	2019	2018
	Note	A$'000	A$'000	A$'000	A$'000
Cash flows from operating activities					
Cash generated from/(utilised in) operations	25	**90 901**	64 166	**10 531**	155
Tax paid		**(25 133)**	(8 070)	**–**	–
Net cash from operating activities		**65 768**	56 096	**10 531**	155
Cash flows (utilised in)/from investing activities					
Acquisition of property, plant and equipment	5	**(24 274)**	(10 702)	**–**	–
Acquisition of other intangible assets	6	**(956)**	(658)	**–**	–
Eloff and Manyeka Coal Mines (Pty) Limited (Manyeka) acquisition		**(8 633)**	–	**–**	–
Business acquisition – North Block Complex (Pty) Limited		**(1 619)**	–	**–**	–
Repayment of capital by subsidiaries	7	**–**	–	**4 795**	13 896
Investments in associated undertakings	8	**(9)**	167	**–**	–
Purchase of other financial asset		**(1 363)**	(1 385)	**–**	–
Transfer from/(to) restricted cash		**2 501**	(2 605)	**–**	–
Finance income	22	**2 754**	1 396	**3**	–
Net cash (utilised in)/from investing activities		**(31 599)**	(13 787)	**4 798**	13 896
Cash flows (utilised in)/from financing activities					
Issue of new share capital	14	**446**	–	**–**	–
Draw down from finance facilities		**9 328**	8 658	**–**	–
Repayment of finance		**(22 093)**	(6 740)	**–**	
Shareholder loan repayment received/(paid)		**3 537**	(899)	**–**	–
Dividends paid		**(19 487)**	(17 362)	**(15 674)**	(10 450)
Cash settlement of converting notes		**–**	(1 970)	**–**	(1 970)
Finance expenses	23 & 26	**(3 694)**	(3 292)	**–**	(62)
Acquisition of minority interest in Eloff Project		**(3 661)**	–	**–**	–
Net cash (utilised in)/from financing activities		**(35 624)**	(21 605)	**(15 674)**	(12 482)
Total cash movement for the year		**(1 455)**	20 704	**(345)**	1 569
Unrestricted cash at the beginning of the year		**33 543**	14 461	**1 802**	233
Effect of exchange rate movement on cash balances		**(776)**	(1 622)	**–**	–
Total cash and cash equivalents	13	**31 312**	33 543	**1 457**	1 802
Restricted cash	13	**828**	3 329	**–**	–
Total cash and cash equivalents (including restricted cash)	13	**32 140**	36 872	**1 457**	1 802

The notes on pages 59 to 128 form part of the financial statements.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2019

1. Significant accounting policies

General Information

The Company is domiciled in the UK. The address of the registered office is 6th Floor, 60 Gracechurch Street, London, EC3V 0HR. The registered number of the Company is 4482856.

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. Both the parent company financial statements and the Group financial statements have been prepared on a historical cost basis, apart from those items adjusted for fair value and approved by the Directors in accordance with IIFRS and the International Financial Reporting Interpretations Committee interpretations, issued by the International Accounting Standards Board and as adopted by the European Union.

Going concern

The accounts have been prepared on the going concern basis. At the year end, the Group had A$31.3 million (2018: A$33.5 million) of unrestricted cash reserves and A$0.8 million (2018: A$3.3 million) of restricted cash.

The Universal group companies have experienced significant growth during the year and this has been reflected in the increased profitability and volume growth during the period. The Company generated A$90.9 million of cash from three operating collieries.

The Company has a proven track record of implementing cost effective operations and the ability to deliver on all production commitments. The Company generates sufficient cash flows to support debt repayments, capital requirements and operating costs (including head office overheads). The Company forecast is based on similar operational volumes and costing as in the 2019 financial year, and even with the assumption of the current subdued export pricing, the Directors are satisfied that the Group has adequate resources to continue as a going concern for a period of not less than 12 months from the date of approval of these financial statements.

Functional and presentation currency

Items included in the consolidated annual financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The functional currency of the South African business operations is South African rand (R).

The Company's functional currency is Australian dollar. The consolidated annual financial statements are presented in Australian dollar, which is the Group's presentation currency. Further details are provided on the foreign currency accounting policy in note 1.8.

1.1 Basis of consolidation

Business combinations

The Group accounts for business combinations using the acquisition method of accounting. The cost of the business combination is measured as the aggregate of the fair values of assets acquired, liabilities incurred or assumed and equity instruments issued. Costs directly attributable to the business combination are expensed as incurred, except the costs to issue debt which are amortised as part of the effective interest and costs to issue equity which are included in equity.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the recognition conditions of IFRS 3 *Business Combinations* are recognised at their fair values at acquisition date.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

1. Significant accounting policies continued

1.1 Basis of consolidation continued

Business combinations continued

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date that arises from past events and its fair value can be measured reliably.

Any difference arising between the fair value and the tax base of the acquiree's assets and liabilities that give rise to a taxable or deductible difference result in the recognition of a deferred tax liability or asset.

Non-controlling interest arising from a business combination is measured either at their share of the fair value of the assets and liabilities of the acquiree or at fair value. The treatment is not an accounting policy choice but is selected for each individual business combination and disclosed in the note for business combinations.

Goodwill is not amortised but is tested on an annual basis for impairment. If goodwill is assessed to be impaired, that impairment is not subsequently reversed.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it 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 over the entity. A parent entity has power over the subsidiary, when it has existing rights to direct the relevant activities of the subsidiary. The relevant activities are those which significantly affect the subsidiary's returns. Subsidiaries are fully consolidated from the date on which control is transferred until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Inter-company transactions, balances and unrealised gains on transactions between Group entities are eliminated on consolidation.

The Company's investments in its subsidiaries are carried at cost, less any impairment recognised.

Non-controlling interest

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination. The non-controlling interests' share of losses, where applicable, are attributed to the non-controlling interests irrespective of whether the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses.

Investment in associates

The Group's interests in equity-accounted investees comprise interests in associates.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interest in associates is accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. The carrying amount is adjusted for the investor's share of the post acquisition profits or losses of the investee which are recognised in profit or loss and distributions received which reduced the carrying amount of the investment.

Subsequent to initial recognition, associates include the Group's share of the profit or loss and other comprehensive income of the associate, until the date on which significant influence or joint control ceases.

1.2 Intangible assets

Exploration and evaluation assets

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity include researching and analysing historical exploration data, gathering exploration data through geophysical studies, exploratory drilling and sampling, determining and examining the volume and grade of resources, surveying transportation and infrastructure requirements, conducting market and finance studies and borrowing cost.

Exploration and evaluation expenditure for each area of interest is capitalised and carried forward as an asset if:

- Such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively by its sale or
- It is planned to continue with active and significant operations in relation to the area, or at the reporting period end, the activity has not reached a stage which permits a reasonable assessment of the existence of commercially recoverable reserves

Purchased exploration and evaluation assets are recognised as assets at cost of acquisition or at fair value if purchased as part of a business combination.

Capitalised exploration and evaluation expenditure is recorded as a component of intangible assets. No amortisation is charged during the exploration and evaluation phase.

Exploration and evaluation assets are transferred to “mine development assets” once the technical feasibility and commercial viability of extracting the mineral resource supports the future development of the property and such development has been appropriately approved. Prior to transferring the exploration and evaluation assets to mine development assets, an impairment test is completed.

1.3 Property, plant and equipment

Mining assets

Mine assets including capitalised exploration and evaluation expenditures and capitalised mine development expenditure is stated at cost less accumulated depreciation and less accumulated impairment losses.

Upon acquisition of a subsidiary, mine assets are revalued to fair value per the requirements of IFRS 3.

Upon transfer of exploration and evaluation assets to mine development assets, all subsequent expenditure on the construction, installation or completion of infrastructure facilities are capitalised. Development expenditure is net of proceeds from the incidental sale of coal extracted during the development phase.

Stripping costs incurred in the development phase of a mine before production commences are capitalised, where they give rise to future benefits, as part of the cost of constructing the mine and subsequently amortised over the LoM on a units of production basis.

When a mine construction project moves into the production stage, the capitalisation of certain mine construction costs ceases and costs are either regarded as part of the cost of inventory, should they be incurred in the production of coal, or expensed.

Once the project reaches commercial production, all assets included in mine development assets are transferred to mine assets.

Capital work in progress is disclosed as an asset category of property, plant and equipment, which is measured at cost and is not depreciated. Capital work in progress consists of capital expenditure less revenue generated by the project prior to reaching commercial production.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

1. Significant accounting policies continued

1.3 Property, plant and equipment continued

Depreciation

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment losses. Depreciation is charged so as to write off the costs of assets, over their estimated useful lives:

Item	Average useful life
Mineral properties	Units of production
Development and production assets	Units of production
Land rehabilitation asset	Units of production
Mine development asset	Units of production
Mining infrastructure	Units of production
Mine owners assets	Units of production
Processing plant	Units of production
Deferred stripping costs	Units of production
Motor vehicles	4 years straight line
Furniture and fixtures	5 years straight line
Computer equipment	3 years straight line

Depreciation costs calculated using the units of production method are included in cost of sales in the statement of comprehensive income, as these costs pertain to mining assets while depreciation changes resulting from the straight lining method are included in operating expenses in the statement of comprehensive income.

The units of production depreciation method refers to the estimated economically recoverable reserves which are used in determining the depreciation of mine specific assets proportional to the depletion of the anticipated remaining LoM production.

Each item's life, which is assessed annually, has limitations resulting from both its physical life and the present assessment of economically recoverable reserves (proven and probable reserves) to which the asset is related.

The residual value, useful life and depreciation method of each asset is reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Stripping costs

As part of its mining operations, the Group incurs stripping (waste removal) costs both during the development phase and production phase of its operations. Stripping costs incurred in the development phase of a mine are capitalised as a stripping activity asset. Stripping costs incurred during the production phase are generally considered to create two benefits, being either the production of inventory or improved access to the coal to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories.

Where the benefits are realised in the form of improved access to coal to be mined in the future, the costs are recognised as a non-current asset, referred to as a "stripping activity asset", if the following criteria are met:

- Future economic benefits (being improved access to the coal body) are probable
- The component of the coal body for which access will be improved can be accurately identified and
- The costs associated with the improved access can be reliably measured

If one of the criteria is not met, the production stripping costs are charged to the statement of comprehensive income as operating costs as they are incurred. The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of coal, plus an allocation of directly attributable overhead costs.

If the costs of the inventory produced and the stripping activity asset are not separately identifiable, a relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. This production measure is calculated for the identified component of the coal body and is used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. The stripping activity asset is accounted for as an addition to, or an enhancement of, an existing asset, being the mine asset in the statement of financial position. The stripping activity asset is subsequently depreciated using the units of production method over the life of the identified component of the coal body that became more accessible as a result of the stripping activity. The stripping activity asset is then carried at cost less depreciation and any impairment losses.

1.4 Financial instruments

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

Broadly, the classification possibilities, which are adopted by the Group, as applicable, are as follows:

Financial assets which are equity instruments:

- Mandatorily at fair value through profit or loss or
- Designated as at fair value through other comprehensive income
  (This designation is not available to equity instruments which are held for trading or which are a contingent consideration in a business combination.)

Financial assets which are debt instruments:

- Amortised cost
  (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows.) or

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

1. Significant accounting policies continued

1.4 Financial instruments continued

- Fair value through other comprehensive income
  (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is achieved by both collecting contractual cash flows and selling the instruments.) or
- Mandatorily at fair value through profit or loss
  (This classification automatically applies to all debt instruments which do not qualify as at amortised cost or at fair value through other comprehensive income.) or
- Designated at fair value through profit or loss
  (This classification option can only be applied when it eliminates or significantly reduces an accounting mismatch.)

Derivatives which are not part of a hedging relationship:

- Mandatorily at fair value through profit or loss

Financial liabilities:

- Amortised cost or
- Mandatorily at fair value through profit or loss.
  (This applies to contingent consideration in a business combination or to liabilities which are held for trading.) or
- Designated at fair value through profit or loss
  (This classification option can be applied when it eliminates or significantly reduces an accounting mismatch, the liability forms part of a group of financial instruments managed on a fair value basis, or it forms part of a contract containing an embedded derivative and the entire contract is designated as at fair value through profit or loss.)

Note 29, risk management presents the financial instruments held by the Group based on their specific classifications.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the Group are presented below:

Loans receivable at amortised cost

Classification

Loans receivable (note 9) are classified as financial assets subsequently measured at amortised cost.

They have been classified in this manner because the contractual terms of these loans give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding and the Group's business model is to collect the contractual cash flows on these loans.

Recognition and measurement

Loans receivable are recognised when the Group becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any. They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Application of the effective interest method

Interest income is calculated using the effective interest method, and is included in profit or loss in finance income (note 22).

The application of the effective interest method to calculate interest income on a loan receivable is dependent on the credit risk of the loan as follows:

- The effective interest rate is applied to the gross carrying amount of the loan, provided the loan is not credit impaired. The gross carrying amount is the amortised cost before adjusting for a loss allowance
- If a loan is purchased or originated as credit-impaired, then a credit-adjusted effective interest rate is applied to the amortised cost in the determination of interest. This treatment does not change over the life of the loan, even if it is no longer credit-impaired
- If a loan was not purchased or originally credit-impaired, but it has subsequently become credit-impaired, then the effective interest rate is applied to the amortised cost of the loan in the determination of interest. If, in subsequent periods, the loan is no longer credit impaired, then the interest calculation reverts to applying the effective interest rate to the gross carrying amount

Loans denominated in foreign currencies

When a loan receivable is denominated in a foreign currency, the carrying amount of the loan is determined in the foreign currency. The carrying amount is then translated to the Australian dollar equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss.

Details of foreign currency risk exposure and the management thereof are provided in the specific loan notes and in the risk management (note 29).

Impairment

Management has chosen to adopt the simplified approach, as allowed by IFRS 9, to the Expected Credit Loss (ECL) model in assessing the impairment of financial assets.

The Group recognises a loss allowance for expected credit losses on all loans receivable measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans.

The Group measures the loss allowance at an amount equal to lifetime ECL, when there has been a significant increase in credit risk since initial recognition. If the credit risk on a loan has not increased significantly since initial recognition, then the loss allowance for that loan is measured at 12 month expected credit losses (12 month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

1. Significant accounting policies continued

1.4 Financial instruments continued

Impairment continued

In order to assess whether to apply lifetime ECL or 12 month ECL, in other words, whether or not there has been a significant increase in credit risk since initial recognition, the Group considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a loan being credit impaired at the reporting date or of an actual default occurring.

Write off policy

The Group writes off a loan when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Loans written off may still be subject to enforcement activities under the Group recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Trade and other receivables

Classification

Trade and other receivables, excluding, when applicable, VAT and prepayments, are classified as financial assets subsequently measured at amortised cost (note 12).

They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the Group's business model is to collect the contractual cash flows on trade and other receivables.

Recognition and measurement

Trade and other receivables are recognised when the Group becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Application of the effective interest method

For receivables which contain a significant financing component, interest income is calculated using the effective interest method, and is included in profit or loss in finance income (note 22).

The application of the effective interest method to calculate interest income on trade receivables is dependent on the credit risk of the receivable as follows:

- The effective interest rate is applied to the gross carrying amount of the receivable, provided the receivable is not credit impaired. The gross carrying amount is the amortised cost before adjusting for a loss allowance
- If a receivable is a purchased or originated as credit-impaired, then a credit-adjusted effective interest rate is applied to the amortised cost in the determination of interest. This treatment does not change over the life of the receivable, even if it is no longer credit-impaired
- If a receivable was not purchased or originally credit-impaired, but it has subsequently become credit-impaired, then the effective interest rate is applied to the amortised cost of the receivable in the determination of interest. If, in subsequent periods, the receivable is no longer credit impaired, then the interest calculation reverts to applying the effective interest rate to the gross carrying amount

Trade and other receivables denominated in foreign currencies

When trade and other receivables are denominated in a foreign currency, the carrying amount of the receivables are determined in the foreign currency. The carrying amount is then translated to the Australian dollar equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss.

Details of foreign currency risk exposure and the management thereof are provided in the risk management (note 29).

Impairment

The Group recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

The Group measures the loss allowance for trade and other receivables at an amount equal to lifetime ECL, which represents the expected credit losses that will result from all possible default events over the expected life of the receivable.

Recognition of expected credit losses

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade and other receivables, through use of a loss allowance account. The impairment loss is included in profit or loss as a movement in credit loss allowance (note 20).

Credit risk

Details of credit risk are included in the trade and other receivables (note 12) and the risk management (note 29).

Non-hedging derivatives

Classification

Non-hedging derivatives are classified as mandatory at fair value through profit or loss.

Recognition and measurement

Derivatives are recognised when the Group becomes a party to the contractual provisions of the instrument. They are measured, at initial recognition and subsequently, at fair value. Transaction costs are recognised in profit or loss.

Borrowings

Classification

Borrowings (note 16) are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

Borrowings and loans from related parties are recognised when the Group becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

1. Significant accounting policies continued

1.4 Financial instruments continued

Recognition and measurement continued

Interest expense, calculated on the effective interest method, is included in profit or loss in finance expenses (note 23.)

Borrowings expose the Group to liquidity risk and interest rate risk. Refer to note 29 for details of risk exposure and management thereof.

Loans denominated in foreign currencies

When borrowings are denominated in a foreign currency, the carrying amount of the loan is determined in the foreign currency. The carrying amount is then translated to the Australian dollar equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss.

Details of foreign currency risk exposure and the management thereof are provided in the specific loan notes and in the risk management (note 29).

Trade and other payables

Classification

Trade and other payables (note 19), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

They are recognised when the Group becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

If trade and other payables contain a significant financing, component, and the effective interest method results in the recognition of interest expense, then it is included in profit or loss in finance expenses (note 23).

Trade and other payables expose the Group to liquidity risk and possibly to interest rate risk. Refer to note 29 for details of risk exposure and management thereof.

Trade and other payables denominated in foreign currencies

When trade payables are denominated in a foreign currency, the carrying amount of the payables are determined in the foreign currency.

The carrying amount is then translated to the Australian dollar equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss.

Details of foreign currency risk exposure and the management thereof are provided in the risk management (note 29).

Financial guarantee contracts

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

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at fair value through profit or loss and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9 and
- The amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the revenue recognition policies

Refer to note 13 for details of financial guarantee contracts.

Cash and cash equivalents

Cash and cash equivalents are stated at carrying amount which is deemed to be fair value.

1.5 Financial instruments: IAS 39 comparatives

Recognition

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables comprise of trade and other receivables and loan receivable, which are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provisions for impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

1. Significant accounting policies continued

1.5 Financial instruments: IAS 39 comparatives continued

Restricted cash

Restricted cash comprises cash balances which are restricted through the granting of security in favour of various financial institutions.

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, and embedded conversion options in convertible loan notes, are initially measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise.

Financial assets

Financial assets are classified into the following specified categories: fair value through profit or loss, 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial liabilities

Financial liabilities are initially measured at fair value. Financial liabilities comprise short-term and long-term interest-bearing borrowings and trade and other payables (excluding income received in advance).

Subsequent to initial measurement, such liabilities are carried at amortised cost using the effective interest method.

Borrowings

Borrowings comprise short-term and long-term interest-bearing borrowings. Premiums or discounts arising from the difference between the fair value of borrowings raised and the amount repayable at maturity date are recognised in the consolidated statement of profit or loss as borrowing costs based on the effective interest rate method.

Derecognition

Financial liabilities are derecognised when the associated obligation has been discharged, cancelled or has expired.

1.6 Compound instruments

Mining rehabilitation guarantee assets comprise of investment policies dedicated as collateral to the funding of the rehabilitation obligation. These investments are initially measured at cost and subsequently measured at fair value through profit and loss.

1.7 Tax

Current taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the end of the reporting period. Current taxation assets and liabilities are measured at the amount expected to be recovered from or paid to the local taxation authorities.

Deferred tax

Deferred income tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts on the statement of financial position.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or joint venturer and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred income tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will be available to allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Current and deferred tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

1.8 Foreign currencies

Foreign currency transactions

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'). Foreign currency transactions are translated into the relevant functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

1. Significant accounting policies continued

1.8 Foreign currencies continued

Foreign currency transactions continued

On consolidation, the results of overseas operations are translated into A$ at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve. On disposal of the foreign operation, relevant amounts in the foreign exchange reserve are reclassified to and recognised in the statement of profit or loss.

1.9 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

1.10 Inventories

Inventories, which include finished product and run of mine, are stated at the lower of cost of production on the weighted average basis or estimated net realisable value. Cost of production includes direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business less marketing costs. Net realisable value also incorporates any directly attributable mine general and administration costs of processing in the case of the ROM stockpiles.

Consumables are stated at the lower of cost or net realisable value.

1.11 Revenue from contracts with customers

The Group recognises revenue from the following major sources:

- Sales of goods – coal

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product to a customer.

Revenue generated by any mining operation prior to reaching commercial production is capitalised to the mine development asset.

Sales of goods – coal

Revenue from the sale of goods is recognised when control of the goods has transferred, which is considered to occur as determined by customer offtake arrangements and delivery terms for the supply of coal in line with the international Inco-terms which varies according to the terms of the contracts. Majority of the export sales are shipped free-on-board. At this point the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the commodities and the costs incurred, or to be incurred, in respect of the sale can be reliably measured.

1.12 Borrowing costs

Interest is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity. Borrowing costs are expensed as incurred except to the extent that it relates directly to the construction of property, plant and equipment during the time that it is required to complete and prepare the asset for its intended use, when it is capitalised as part of property, plant and equipment. Borrowing costs are capitalised as part of the cost of the asset where it is probable that the asset will result in economic benefit and where the borrowing cost can be measured reliably. No interest or borrowing costs have been capitalised during the year.

1.13 Fair value

A number of assets and liabilities included in the Group and Company's financial statements require measurement at, and/or disclosure of, fair value. The fair value measurement of the Group and Company's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data)

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group and Company measures a number of financial instruments at fair value. All instruments are categorised as level 3, there are no level 1 or level 2 instruments.

For more detailed information in relation to the fair value measurement of the items above, please refer to note 29.

1.14 Short-term and long-term loans

Finance income on loans receivable are accrued on a timely basis using the effective interest method, which exactly discounts estimated future cash flows through the expected life of the financial asset, to which the finance income derived, to its net carrying value.

Finance income during the year related to bank interest received and interest on the Ndalamo Resources (Pty) Limited (Ndalamo) loan accrued. The impact of discounting was immaterial.

Interest income and expense are reported on an accrual basis.

1.15 Provisions

Rehabilitation provisions

The Group records the present value of estimated costs of legal and constructive obligations required to restore mining and other operations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and revegetation of affected areas. The obligation generally arises when the "mine development asset" is installed or the ground/environment is disturbed at the mining production location.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

1. Significant accounting policies continued

1.15 Provisions continued

Rehabilitation provisions continued

The provision is discounted using a current market-based pre-tax discount rate. Over time, the discounted liability is increased for the change in present value based on the discount rates and the unwinding of the discount is included in finance expenses. The provision is reviewed on an annual basis for changes to obligations, legislation or discount rates that impact estimated costs or lives of operations.

At the time of establishing the provision, a corresponding asset is capitalised by increasing the carrying amount of the related mine assets. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate and the adjusted cost of the asset is depreciated prospectively.

Additional disturbances or changes in rehabilitation costs are recognised as additions to the corresponding mine assets and rehabilitation liability when they occur. Any reduction in the rehabilitation liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss. If, for mature mines, the revised mine assets net of rehabilitation provisions exceeds the recoverable value, that portion of the increase is charged directly to expense.

Costs related to restoration of site damage (subsequent to start of commercial production) which is created on an ongoing basis during production are provided for at their net present values and recognised in profit or loss as extraction progresses.

For closed sites, changes to estimated costs are recognised immediately in profit or loss.

1.16 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity.

1.17 Judgements made in applying accounting policies and key sources of estimation uncertainty

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation were:

Business Combinations (note 4)

Control assessments are performed by management, per the requirements of IFRS 10, to establish control in all business combinations. Identifiable assets acquired and liabilities assumed in all business combinations are fair valued based on the assumptions provided by independent third parties. Should any amendments to fair values exist, these are applied within the measurement period, per the requirements of IFRS 3. Ownership of mining rights for which section 11 approval is still pending shall be assumed as this is customary business practice within the industry. This is considered a judgement, if the Section 11 is not received, then the acquisition accounting will reverse. The Directors and Management are confident that the necessary approval will be received and therefore consider that the Paardeplaats asset forms part of the acquisition assets. Details of specific business combination transactions are discussed in note 4.

Impairment of intangible assets and property, plant and equipment (note 5 and 6)

In formulating accounting policies, the Directors are required to apply their judgement, and where necessary engage professional advisors, with regard to the impairment review assumptions used in assessing the carrying value of its assets. No impairment indicators were identified in the current year.

These assets of the Group are subject to periodic review by the Directors.

Property, plant and equipment (note 5)

Property, plant and equipment primarily consists of mining assets at the Kangala, NCC and NBC. The Group assesses each asset or cash generating unit (CGU) in each reporting period to determine whether any indication of impairment exists. These assessments require the use of estimates and assumptions such as commodity prices, discount rates, operating costs, future capital requirements, closure and rehabilitation costs, exploration potential, reserves and resources and operating performance. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows.

Estimated economically recoverable coal reserves at the Kangala, NCC and NBC are used in determining the depreciation of mine specific assets proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has limitations resulting from either its physical life or the present assessment of economically recoverable reserves to which the asset is related. This requires the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure, as explained in more detail below under coal resource estimate.

Intangible assets (note 6)

The application of the Group's accounting policy for exploration and evaluation expenditure requires estimates and assumptions to determine whether future commercial exploitation or sale are likely. This requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Exploration and evaluation assets are assessed by management for impairment when there are facts and circumstances that suggests that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.

Management considers the following indicators in assessing if an impairment test is required:

- The period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale

In the event that an impairment indicator is identified by management, the recoverable amount of the exploration and evaluation asset is required to be determined. The determination of the recoverable amount requires the use of valuation estimates, judgements and assumptions such as techniques and methodologies contained within competent person's reports, commodity prices, discount rates, future capital requirements, exploration potential and reserves and resources.

These estimates and assumptions are subject to risk and uncertainty and may change if new information becomes available or if there are significant fluctuations in commodity markets. There is therefore, the possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of the intangible asset.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

1. Significant accounting policies continued

1.17 Judgements made in applying accounting policies and key sources of estimation uncertainty

Impairment (note 6)

Coal resource estimate (note 5)

The Group discloses its coal reserves and resources in accordance with the JORC Code which is set by the Australian Joint Ore Reserves Committee which comprises representatives of The Minerals Council of Australia, The Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists; as well as representatives of the ASX, the Financial Services Institute of Australasia and the accounting profession. The JORC Code is a binding standard for public reporting and disclosure in Australasia, applied by appropriately qualified and experienced persons (Competent Persons), and sets out minimum standards, recommendations and guidelines that require the use of information relating to the geological and technical data on the size, depth, shape and grade of the coal body and suitable production techniques and recovery rates. Further, the JORC Code requires estimates of foreign exchange rates, commodity prices, future capital requirements and production costs. Due to the change of such information over time as well as additional data that may be collected, estimates of reserves and resources may change and may subsequently affect the financial results and positions of the Group, including:

- The carrying value of exploration and evaluation assets, mine properties, and property, plant and equipment may be affected due to changes in estimated future cash flows, which may result in accelerated depreciation or impairment
- Depreciation and amortisation charges in the statement of comprehensive income may change where such charges are determined using the units of production method, or where the useful life of the related assets change
- Provisions for rehabilitation and environmental provisions may change where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities
- Contingent liabilities may change where the level of future obligations and economic outflows are based on reserve estimates

Inventories (note 11)

Inventory stockpiles are measured by appropriately qualified persons, applying surveying methodologies, which consider the size and grade of the coal stockpile. The estimated recovery percentage is based on the expected processing method. In addition, net realisable value tests are performed at each reporting date and represent the estimated future sales price of the ROM coal the entity expects to realise when the ROM coal is processed and sold, less estimated costs to bring the ROM coal to sale.

Judgement is applied in estimating the variables noted above.

Rehabilitation provision (note 18)

The Group assesses its mine rehabilitation provision at each reporting date. Significant estimates and assumptions are made including the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates and discount rates. Estimates and assumptions may change if new information becomes available, which could have a material effect on the carrying value of the mine rehabilitation provision and the related mineral asset.

Reversal to the rehabilitation provision are applied against the related rehabilitation assets, should no asset exist (due to business combinations) the reversal is applied to the income statement.

Recovery of deferred tax assets (note 17)

Deferred tax assets require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. This requires estimates of future taxable income based on forecasted cash flows as well as judgement about the application of existing tax legislation in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be adversely impacted.

Subsidiaries (note 7)

The Group consolidates certain subsidiaries on the basis of effective control in accordance with IFRS 10. In assessing control, potential voting rights are only considered if they are substantive. Areas reviewed by the Group which may evidence effective control include:

- Holding a significant voting interest (even if less than half of the voting rights)
- The ability to establish policies and guide operations through appointing the investee's senior management
- The minority shareholders have no participating rights or other preferential rights, excluding standard protective rights
- Ownership of a majority of the voting power that participates in the general meetings and ability to appoint the majority of Directors and indirectly, senior management

Refer to note 7 for specific considerations in assessing control of the various subsidiaries.

2. Standards and interpretations

The consolidated annual financial statements have been prepared on the basis of accounting standards, interpretations and amendments effective at the beginning of the accounting period.

Standards and interpretations effective and adopted in the current year

New standards impacting the Group that will be adopted in the annual financial statements for the year ended 30 June 2019, and which have given rise to changes in the Group's accounting policies are:

- IFRS 9 *Financial Instruments* and
- IFRS 15 *Revenue from contracts with customers*

IFRS 9 Financial instruments

Details of the impact these two standards have had are given below. Other new and amended standards and interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies. Considering the current structure and business arrangements of the Group, the impact of IFRS 9 and 15 is considered to be negligible.

The impact of IFRS 9 was assessed based on cash balances to settle intercompany loans as well as NPV analysis, performed by an independent third party, for the operational entities and an intrinsic value analysis for the future projects. Based on these, the risk of default was assessed to be immaterial hence no impairment of financial assets is required per IFRS 9. During the FY2019 period, there has been a change in classification of financial assets as a result of IFRS 9, and the Company has adopted the expected credit loss model for impairment under IFRS 9.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

2. Standards and interpretations continued

IFRS 9 Financial instruments continued

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 July 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 July 2018 relates solely to the new impairment requirements.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
			A$'000	A$'000
Financial assets				
Loan receivable	Loans and receivables	Amortised cost	10 575	10 575
Other financial assets	Loans and receivables	Amortised cost	2 658	2 658
Trade and other receivables	Loans and receivables	Amortised cost	44 417	44 417
Total financial assets			**57 650**	**57 650**
Financial liabilities				
Borrowings	Other financial liabilities	Other financial liabilities	32 976	32 976
Trade and other payables	Other financial liabilities	Other financial liabilities	42 671	42 671
Total financial liabilities			**75 647**	**75 647**

IFRS 15 Revenue from contracts with customers

The main principle of IFRS 15 is to recognise revenue when/as performance obligations per agreements with customers are satisfied. Management is of the opinion that its current agreements with customers are relatively straight forward and simplistic. Control of the coal, per IFRS 15, transfers to our customers when the coal is delivered to the customers. This is analogous to the principle of risks and rewards being transferred to the buyer, per the old IAS 18, hence there is no impact to the financial statements. To date, the Group has not experienced material delays in fulfilling its performance obligations and thus management considers the impact of IFRS on revenue recognition to be immaterial.

New standards and interpretations not yet adopted

The Group has elected not to early adopt the following revised and amended standards, which are not yet mandatory in the European Union. The list below includes only standards and interpretations that could have an impact on the consolidated financial statements of the Group.

Standards	Details of amendment	Annual periods beginning on or after
IFRS 16 leases	The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). An assessment has been performed and a right of use asset will result from the application of IFRS 16 arising from the lease of UCEHSA's office building. The value of the right of use asset and corresponding lease liability is A$124 797 and the impact is assessed as immaterial. The transition (modified retrospective) approach will be selected in accounting for leases under IFRS 16	1 January 2019
IAS 12 income taxes	Clarification that all income tax consequences of dividends should be recognised in profit or loss, regardless of how the tax arises	1 January 2019

3. Segmental reporting

All investments in associates and subsidiaries operate in one geographical location being South Africa, and are organised into five business units from which the Group's expenses are incurred and revenues are earned, being (1) for the exploration and development of coal, (2) mining and sale of coal and (3) corporate activities. The reporting on these investments to the chief operating decision makers, the Board of Directors, focuses on key performance indicators that the Directors monitor on a regular basis which are:

- ROM tonnages, processing plant yields and sales tonnages
- Revenue per tonne
- Cash cost per ROMt
- Gross margin in percentage and gross margin per sales tonne
- EBITDA
- EBITDA percentage of revenue on a monthly and year to date basis

The non-current assets relating to the capitalisation expenditure associated with the coal projects are located in South Africa. All corporate expenditure, assets and liabilities relate to incidental operations carried out in the United Kingdom, Australia and South Africa.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

3. Segmental reporting continued

For the year ended 30 June 2019	Mining and sale of coal: Kangala A$'000	Mining and sale of coal: NCC A$'000	Mining and sale of coal: NBC 01/11/2018 – 30/06/2019 A$'000	Exploration and develop-ment of coal A$'000	Corporate (unallocated) A$'000	Total A$'000
Revenue	143 451	186 784	103 567	989	(1)	434 790
Cost of sales	(112 040)	(135 915)	(66 836)	–	–	(314 791)
Cost of sales – depreciation	(16 998)	(8 128)	(579)	–	–	(25 705)
Cost of sales excluding depreciation	(95 042)	(127 787)	(66 257)	–	–	(289 086)
Gross profit	31 411	50 869	36 731	989	(1)	119 999
Operating expenses	(8 520)	(4 856)	(22 193)	(1 093)	(9 884)	(46 546)
Finance income	568	1 408	152	153	2 939	5 220
Finance expenses	(1 166)	(4 946)	(106)	(680)	1	(6 897)
Bargain purchase gain	–	–	20 687	–	–	20 687
Foreign exchange gain	–	–	–	–	123	123
Share of profit of associated undertaking	–	–	–	30	–	30
Profit/(loss) before taxation	22 293	42 475	35 271	(601)	(6 822)	92 616
Taxation	(5 763)	(10 458)	(3 787)	(235)	(1 983)	(22 226)
Profit/(loss) after taxation	16 530	32 017	31 484	(836)	(8 805)	70 390
Total non-current assets	17 222	89 937	78 866	83 301	10 145	279 471
Total capital expenditure	1 676	24 253	20 081	6 094	49	52 153
Total assets	44 499	126 297	110 493	81 559	18 213	381 061
Total liabilities	(30 383)	(62 137)	(78 402)	(9 225)	(5 127)	(185 274)

Revenue to the value of A$342 225 902 and A$92 507 515 was received from Eskom Holdings SOC Limited and Glencore Plc respectively. All revenues were earned in South Africa.

EBITDA reconciliation	Note	2019 A$'000	2018 A$'000
Operating profit		**73 453**	52 755
Add back: depreciation		**25 957**	18 934
Forex effect on depreciation		**(373)**	588
EBITDA		**99 037**	72 277
Profit on NBC acquired stock allocated to bargain purchase		**9 435**	–
Reversal of rehabilitation provision estimate*	18	**(10 325)**	–
EBITDA – normalised		**98 147**	72 277

* *Note 21 indicates a reversal of rehabilitation provision in the FY2018 of A$6 352 that has not been removed for the purpose of normalised EBITDA in the FY2018. The reversal of the obligation in the FY2018 related to the Vaalkranz pit actual rehabilitation project that was ongoing in FY2018 at NCC. The rehabilitation was done as per an approved rehabilitation plan and the reduction in the liability was to reduce the liability to the remaining work outstanding that was completed during the FY2019. Management formed the view that the reduction in the liability is therefore an imminent saving to the Group due to the cost effective rehabilitation. The rehabilitation liability reversal in the FY2019 originated from the change in projected volumes at discard dumps to be rehabilitated at the end of NCC LoM. The reduction was due to a change in estimation of the volume of the discard dump and is not yet part of an actual rehabilitation plan as this will only be done at the end of the LoM.*

For the year ended 30 June 2018	Mining and sale of coal: Kangala A$'000	Mining and sale of coal: NCC A$'000	Exploration and develop-ment of coal A$'000	Corporate (unallocated) A$'000	Total A$'000
Revenue	148 653	167 697	–	–	316 350
Cost of sales	(112 858)	(123 026)	–	–	(235 884)
Cost of sales – depreciation	(11 922)	(6 398)	–	–	(18 320)
Cost of sales excluding depreciation	(100 936)	(116 628)	–	–	(217 564)
Gross profit	35 795	44 671	–	–	80 466
Operating expenses	(8 048)	(14 027)	(166)	(5 471)	(27 712)
Finance income	760	376	–	2 662	3 798
Foreign exchange loss	–	–	–	(70)	(70)
Finance expense	(2 373)	(4 570)	–	(552)	(7 495)
Share of profit of associated undertaking	–	187	–	–	187
Decrease in fair value of derivative financial liability	–	–	–	277	277
Profit/(loss) before taxation	26 134	26 637	(166)	(3 154)	49 451
Taxation	(7 027)	(5 580)	–	(872)	(13 479)
Profit/(loss) after taxation	19 107	21 057	(166)	(4 026)	35 972
Total non-current assets	31 341	85 749	45 475	17 073	179 638
Total capital expenditure	4 150	7 767	599	19	12 535
Total assets	54 061	133 975	45 518	31 039	264 593
Total liabilities	(41 634)	(60 081)	(147)	(24 798)	(126 660)

Revenue to the value of A$ 222 852 000 and A$ 92 854 000 was received from Eskom Holdings SOC Limited and Glencore Plc respectively. All revenues were earned in South Africa.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

4. Business combinations

4.1 North Block Complex

On 1 November 2018, NBC acquired all of the assets and assumed certain liabilities of NBC Colliery from Exxaro Coal Mpumalanga (Pty) Limited and Exxaro Coal (Pty) Limited. UCEHSA (an intermediary holding company) holds a 49% interest in NBC and a BEE partner, Ndalamo, holds the balance of 51% of the equity of NBC. Management has performed a control assessment as required under IFRS 10 consolidated financial statements and concluded that UCEHSA directs the relevant activities of NBC and by virtue of this, has control over NBC.

Identifiable assets acquired and liabilities assumed – 2019	Book value A$'000	Fair value uplift A$'000	Fair value A$'000
Property, plant and equipment	7 287	7 639	14 926
Mining resource	42 062	13 870	55 932
Environmental rehabilitation provision	(39 342)	(2 214)	(41 556)
Inventory consumables	242	–	242
Inventory coal stockpiles	–	9 435	9 435
Accruals	(850)	–	(850)
Provision for leave pay	(514)	–	(514)
Deferred tax liability	–	(8 043)	(8 043)
Total fair value of identifiable net assets acquired	8 885	20 687	29 572

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	Valuation technique
Property, plant and equipment	Depreciated replacement cost: depreciated replacement cost reflects adjustment for physical deterioration as well as functional and economic obsolescence
Inventory	Fair value less cost to sell
Mining Resource	Market approach: comparable transaction methodology

The fair value of NBC's tangible assets (property, plant and equipment) have been remeasured since the acquisition date and an amendment to the tangible assets has been accounted at the date of acquisition. The Company used an independent specialist to provide the fair value on a per asset basis. The revaluation amounted to the fair value uplift of asset of A$7.6 million. The Company effectively has until 1 November 2019 to adjust the aquisition fair value if more accurate information becomes available during this period.

NBC's operations are subject to specific environmental regulations. The Group has conducted a detailed assessment of the environmental liability at the date of the acquisition. Since then, the Company has adjusted the time value and discount effect of the liability acquired and have applied a separate valuation to each operating area of the mine. This calculation method is consistent with the treatment of liabilities across the Group. The underlying environmental assessment has remained unchanged but the reduction in the discount period has increased the liability on the day of acquisition to A$41.5 million.

As part of the NBC acquisition, the Company acquired all ROM and finished product stockpiles on site on 1 November 2018. The Inventory did not form part of the original sale and purchase agreement and has therefore not been included in the cost of acquisition on the day of acquisition. The inventory has been fair valued at A$9.4 million which affects the bargain purchase.

Consideration transferred

The following table summarises the acquisition date fair value of the consideration transferred and the gain on acquisition:

	2019	2018
	A$'000	A$'000
Cash	1 619	–
Deferred consideration	7 266	–
Total consideration transferred	8 885	–
Fair value of identifiable net assets	(29 572)	–
Gain on acquisition realised	(20 687)	–

The NBC assets and liabilities were acquired for a total consideration price of A$8.885 million of which A$1.6 million (originally a deposit guarantee provided) was released on the date of acquisition. The remaining portion of the consideration price is payable at the later of:

- 30 June 2020
- The receipt of the DMR Section 11 approval of ownership consent for the Paardeplaats Mining Right

The Company is also expected to release Exxaro Coal of all the DMR rehabilitation guarantees relating to the NBC assets upon receipt of the Section 11 for Paardeplaats.

A gain of A$20.687 million was recognised. This gain arises due to the unlock in value of the undeveloped Paardeplaats adjacent to the current NBC operations. Universal Coal's streamlined and efficient business model will be implemented in the extraction of the value from this resource.

The Company has assumed the ownership of Paardeplaats as at the effective date of the of the acquisition even though the Company has not yet received the DMR Section 11 transfer of ownership approval. The acquisition of the Paardeplaats Project could not be separated from the current asset acquisition and has protection clauses in the sale and purchase agreement in the event that the Section 11 is not received by June 2020 (the current acquisition accounting would be reversed as a result of this). The Company is confident that the granting will be issued in due course.

Acquisition costs relating to the purchase of NBC amounted to A$0.11 million and are disclosed as operating expenses.

Had NBC been a subsidiary from the beginning of the financial year it would have contributed to the Group's revenue and profit A$154 million and A$45 million, respectively.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

4. Business combinations continued

4.2 Manyeka Coal Mines (Pty) Limited and Eloff Mining Company (Pty) Limited

On 3 August 2018, UUCDIV acquired 100% of the shares of Manyeka from Exxaro Coal Central (Pty) Limited for A$8.8 million (R90 million). Management has performed a control assessment as required under IFRS 10 consolidated financial statements and concluded that Manyeka is a subsidiary of UCDIV by virtue of its shareholding.

Manyeka holds 51% of Eloff Mining Company (Pty) Limited (Eloff Project). It is effectively a shelf company with its investment in Eloff Project being its only investment.

UCDIV held 29% of Eloff Project and accounted for its shareholding as an investment in an associate per IAS 28, on the equity method. UCDIV, via its purchase of Manyeka, thus held 80% of Eloff Project on 3 August 2018.

Eloff Project does not meet the definition of a business per IFRS 3. As it is not accounted for as a business combination under IFRS 3, the assets and liabilities of Eloff Project acquired via the purchase of Manyeka were included in the Group at cost, with the excess of the purchase price over the cost of the assets and liabilities acquired being allocated to the exploration asset in Eloff Project.

On 23 September 2018, UCDIV acquired the remaining 20% of Eloff Project from South32 SA Coal Holdings (Pty) Limited for A$3.6 million (R37 million). This took UCDIV's ultimate shareholding of Eloff Project to 100%.

Identifiable assets acquired and liabilities of Eloff Project assumed via Manyeka acquisition – 2019

	Cost	Allocation of excess purchase price	Updated cost
	A$'000	A$'000	A$'000
Exploration asset	4 245	14 377	18 622
Investment property	1 264	–	1 264
Trade and other receivables	66	–	66
Deferred tax	54	–	54
Cash and cash equivalents	1 468	–	1 468
Trade and other payables	(35)	–	(35)
Current tax receivable	105	–	105
Total fair value of identifiable net assets acquired	7 167	14 377	21 544

The excess purchase price was allocated to the exploration asset only as this is the asset that will drive the future economic benefits of Eloff Project.

Excess purchase price allocated

The following summarises the excess purchase price allocated to the exploration asset:

	2019	2018
	A$'000	A$'000
Cost – UCDIV investment in Manyeka (100%)	8 837	–
Carrying value of previously held equity interest in Eloff (29%)	8 397	–
Value of asset acquisition (80%)	17 234	–
Gross up of asset acquisition (100%)	21 543	–
Net asset value of consolidated Manyeka	(7 166)	–
Excess purchase price allocated	14 377	–

Acquisition costs relating to the purchase of Eloff amounted to A$0.01 million and are disclosed as operating expenses.

Had Eloff been a subsidiary from the beginning of the financial year it would have contributed to the Group's revenue and profit A$0.4 million and A$0.35 million, respectively.

5. Property, plant and equipment

	2019			2018		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000
GROUP						
Mine development	22 031	(10 893)	11 138	16 341	(7 367)	8 974
Mining infrastructure	21 887	(11 970)	9 917	15 520	(7 474)	8 046
Processing plant	74 491	(22 346)	52 145	53 459	(13 416)	40 043
Mine owners assets	17 422	(6 125)	11 297	15 033	(4 367)	10 666
Mineral properties	14 722	(4 142)	10 580	8 407	(2 667)	5 740
Development and production assets	33 964	(6 707)	27 257	22 856	(4 521)	18 335
Land rehabilitation asset	19 607	(4 186)	15 421	14 625	(2 388)	12 237
Furniture and fixtures	516	(117)	399	206	(55)	151
Computer equipment	881	(387)	494	447	(186)	261
Motor vehicles	3 880	(1 001)	2 879	2 057	(568)	1 489
Capital work in progress	4 309	–	4 309	1 400	–	1 400
Deferred stripping costs	9 061	(6 315)	2 746	8 820	(3 532)	5 288
Total	222 771	(74 189)	148 582	159 171	(46 541)	112 630

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

5. Property, plant and equipment continued

Reconciliation of property, plant and equipment – Group – 2019

	Opening balance	Additions	Additions through business combinations	Transfers	Foreign exchange movements	Depreciation	Total
	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000
Mine development	8 974	4 115	1 065	–	309	(3 325)	11 138
Mining infrastructure	8 046	5 944	–	–	220	(4 293)	9 917
Processing plant	40 043	7 084	11 771	–	1 810	(8 563)	52 145
Mine owners assets	10 666	202	1 674	–	395	(1 640)	11 297
Mineral properties	5 740	6 085	–	–	157	(1 402)	10 580
Development and production assets	18 335	–	–	10 485	499	(2 062)	27 257
Land rehabilitation asset	12 237	4 586	–	–	331	(1 733)	15 421
Furniture and fixtures	151	200	209	–	34	(195)	399
Computer equipment	261	218	81	–	(5)	(61)	494
Motor vehicles	1 489	1 634	126	–	48	(418)	2 879
Capital work in progress	1 400	3 161	–	(290)	38	–	4 309
Deferred stripping costs	5 288	–	–	–	145	(2 687)	2 746
	112 630	33 229	14 926	10 195	3 981	(26 379)	148 582

Reconciliation of property, plant and equipment – Group – 2018

	Opening balance	Additions	Transfers	Foreign exchange movements	Depreciation	Total
	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000
Mine development	7 400	2	4 177	(119)	(2 486)	8 974
Mining infrastructure	8 272	2 269	–	(142)	(2 353)	8 046
Processing plant	41 911	5 429	–	(668)	(6 629)	40 043
Mine owners assets	12 772	–	–	(206)	(1 900)	10 666
Mineral properties	6 936	–	–	(113)	(1 083)	5 740
Development and production assets	20 672	–	–	(522)	(1 815)	18 335
Land rehabilitation asset	5 590	7 586	–	(90)	(849)	12 237
Furniture and fixtures	10	161	–	(1)	(19)	151
Computer equipment	81	261	–	(1)	(80)	261
Motor vehicles	768	1 073	–	(12)	(340)	1 489
Capital work in progress	4 136	1 508	(4 177)	(67)	–	1 400
Deferred stripping costs	6 601	–	–	(106)	(1 207)	5 288
	115 149	18 289	–	(2 047)	(18 761)	112 630

Pledged as security

Investec Bank Limited

On 31 July 2015, the Group entered into debt financing agreements with Investec Bank Limited (Investec), acting through its Corporate and Institutional Banking division.

Security over the debt facilities are standard for a facility of this nature and involve first ranking security over assets, including bonds over movable and immovable property, mining and surface rights. A project completion guarantee for NCC has been provided from the parent company, Universal Coal Plc which was released in December 2017 upon NCC reaching completion phase.

Capital Harvest Emerging Farmers Finance (Pty) Limited

Security provided by Eloff Project is via a bond of A$9.8 million (R100 million) covering the properties of Eloff Project as well as cession of all income generated by these properties.

Security provided by Universal Coal Plc:

- General deed of suretyship limited to A$9.8 million (R100 million) for the obligation of Eloff Project
- Cession of shareholder loan limited to A$9.8 million (R100 million) due by UCEHSA to Universal Coal Plc

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for the year ended 30 June 2019

6. Intangible assets

		2019			2018		
		Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
	Project	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000
GROUP							
Exploration and evaluation assets (held by):							
Universal Coal Development I (Pty) Limited	Kangala	**1 071**	**–**	**1 071**	1 041	–	1 041
Universal Coal Development II (Pty) Limited	Berenice	**33 922**	**(2 634)**	**31 288**	33 039	(2 634)	30 405
Universal Coal Development III (Pty) Limited	Ubuntu	**–**	**–**	**–**	10 394	–	10 394
Universal Coal Development V (Pty) Limited	Cygnus	**4 039**	**–**	**4 039**	3 635	–	3 635
Eloff Mining Company (Pty) Limited	Eloff	**20 494**	**–**	**20 494**	–	–	–
North Block Complex (Pty) Limited	Paardeplaats	**59 344**	**–**	**59 344**	–	–	–
Other intangible assets							
Computer software		**1 295**	**(720)**	**575**	642	(568)	74
Total		**120 165**	**(3 354)**	**116 811**	48 751	(3 202)	45 549

Reconciliation of intangible assets – Group – 2019

		Opening balance	Additions	Additions through business combinations	Foreign exchange movements	Transfers to property, plant and equipment	Amortisation	Total
	Project	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000
Universal Coal Development I (Pty) Limited	Kangala	**1 041**	**–**	**–**	**30**	**–**	**–**	**1 071**
Universal Coal Development II (Pty) Limited	Berenice	**30 405**	**–**	**–**	**883**	**–**	**–**	**31 288**
Universal Coal Development III (Pty) Limited	Ubuntu	**10 394**	**–**	**–**	**91**	**(10 485)**	**–**	**–**
Universal Coal Development V (Pty) Limited	Cygnus	**3 635**	**305**	**–**	**99**	**–**	**–**	**4 039**
Eloff Mining Company (Pty) Limited	Eloff	**–**	**–**	**20 494**	**–**	**–**	**–**	**20 494**
North Block Complex (Pty) Limited	Paardeplaats	**–**	**–**	**55 932**	**3 412**	**–**	**–**	**59 344**
Computer software		**74**	**651**	**–**	**2**	**–**	**(152)**	**575**
Total		**45 549**	**956**	**76 426**	**4 517**	**(10 485)**	**(152)**	**116 811**

Reconciliation of intangible assets – Group – 2018

	Project	Opening balance	Additions	Foreign exchange movements	Other changes, movements	Amortisation	Total
		A$'000	A$'000	A$'000	A$'000	A$'000	A$'000
Universal Coal Development I (Pty) Limited	Kangala	909	147	(15)	–	–	1 041
Universal Coal Development II (Pty) Limited	Berenice	30 858	40	(493)	–	–	30 405
Universal Coal Development III (Pty) Limited	Ubuntu	10 170	389	(165)	–	–	10 394
Universal Coal Development V (Pty) Limited	Cygnus	3 671	23	(59)	–	–	3 635
Computer software		195	55	(3)	–	(173)	74
Total		45 803	654	(735)	–	(173)	45 549

Supplementary information on intangible assets

The following detailed schedule provides additional information pertaining specifically to the interests held by Universal Coal Plc in the identifiable Mining Rights and Prospecting Rights as at year end:

Subsidiary	Project/operation	Location	Property	Size (ha)	Permit type and number	Expiry date	Comment	% Interest
Universal Coal Development I (Pty) Limited	**Kangala Colliery**	Delmas, Mpumalanga province, South Africa	Wolvenfontein 244 IR: portion 1 and RE of portion 2	951	Mining Right: MP30/5/1/2/2/429MR	02/05/2032	Valid Mining Right	70.5
		Delmas, Mpumalanga province, South Africa	Middelbult 235 IR: portions 40 and 82	942	Prospecting Right: MP30/5/1/1/2/641PR	09/07/2017	Renewal of Prospecting Right granted in July 2014 and lapsed in July 2017	70.5
					Mining Right application lodged: MP30/5/1/1/2/10179MR		Awaiting the granting of Mining Right	
Universal Coal Development II (Pty) Limited	**Berenice Project**	Waterpoort, Limpopo province, South Africa	Berenice 548 MS, Celine 547 MS, Doornvaart 355 MS, Gezelschap 395 MS, Longford 354 MS, Matsuri 358 MS	6.595	Prospecting Right: LP30/5/1/1/2/376PR	19/03/2016	Mining Right application submitted and accepted in September 2016, granting of Mining Right pending	50
Universal Coal Development III (Pty) Limited	**Ubuntu Colliery**	Delmas. Mpumalanga province, South Africa	Brakfontein 264 IR: portions 6, 8, 9, 10, 20, 26, 30 and RE	879	Mining Right: MP30/5/1/2/2/10027MR	21/02/2027	Valid Mining Right, Mining Right granted and executed, registration of the Mining Right underway	48.9

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6. Intangible assets continued

Supplementary information on intangible assets continued

Subsidiary	Project/operation	Location	Property	Size (ha)	Permit type and number	Expiry date	Comment	% Interest
Universal Coal Development IV (Pty) Limited	**New Clydesdale Colliery**	Kriel, Mpumalanga province, South Africa	Roodekop 63 IS, Middeldrift 42 IS (portion 4). Diepspruit 41 IS (RE. RE of portions 1, 2, 3, portions 7, 8, 9, 10), Rietfontein 43 IS (RE. RE of portion 1, portion 3, M/A 2, 3, 4 of RE portion 1), Vaalkrans 29 IS (portions 4, 6, 8, 9, 11, 12, 13, 14, 16. RE of portion 16, M/A 2 of portion 6), Clydesdale 483 IS, Lourens 472 IS, Enkelbosch 20 IS (M/A 4 and 5) and Haasfontein 28 IS (portion 1, M/A 6 and 7 of portion 7)	4.960	Mining Right: MP30/5/1/2/2/429MR	05/02/2034	Mining Rights 429MR and 148MR consolidated through Section 102 of MPRDA, consolidated Mining Right executed on 1 November 2017 and awaiting registration in deeds office	49
	Eloff Project	Delmas, Mpumalanga province, South Africa	Droogfontein 242 IR, Strydpan 243 IR, Stompiesfontein 273 IR	8.168	Mining Right: MP30/5/1/2/2/10169MR	05/12/2038	Mining Right granted and executed, registration of Mining Right underway	49
North Block Complex (Pty) Limited	**North Block Complex Colliery**	Belfast, Mpumalanga province, South Africa	Glisa: Portion 1, 2, 3, 4 and 5 of farm Paardeplaats 380 JT	1 013.76	Mining Right: MP30/5/1/2/1/326MR	05/12/2039	Valid Mining Right	49
			Eerstelingsfontein: RE of portion 2 and portions 3, 4, 5, 6, 7, 8 and 9 of farm Eerstelingsfontein 406 JT	306.56	Mining Right: MP30/5/1/1/2/19MR (10068MR)	11/06/2013	Mining Right renewal granted, execution of Mining Right underway	49
			Paardeplaats: RE of portion 13, portions 28, 29, 30, 40 of farm Paardeplaats 380 JT and RE of portion 2 of farm Paardeplaats 425 JS	1 422.4947	Mining Right: MP30/5/1/2/2/10090MR	25/11/2038	Mining Right granted, executed and registered, Section 11 pending	49
Universal Coal Development V (Pty) Limited	**Cygnus Project**	All Days (Waterpoort), Limpopo province, South Africa	Cygnus 543 MS and adjacent farms	12.299	Prospecting Right: LP30/5/1/1/2/1276PR	28/06/2019	Prospecting Right renewal executed and registered	50
					Mining Right: LP30/5/1/1/2/10169MR		Mining Right application lodged and accepted, granting of the Mining Right underway	50

Subsidiary	Project/operation	Location	Property	Size (ha)	Permit type and number	Expiry date	Comment	% Interest
Universal Coal Development VII (Pty) Limited	**Arnot South Project**	Arnot, Mpumalanga province, South Africa	Vlakfontein 166 IS (RE Ext portions 2, 5, 8, 9, 10, 13 and 14), Tweefontein 203 IS (RE Ext of portion 3, RE Ext of portion 5, RE Ext, of portion 9, RE Ext of portion 10 and portions 4, 7, 8, 11, 12, 13, 14, 18, 19, 20, 21, 22, 23, 24, 25), Op Goeden Hoop 205 IS (RE Ext of portion 2), Groblersrecht 175 IS – whole farm, Klipfontein 495 IS (RE Ext of MA 1), Vaalwater 173 IS (portions 10, 12, 14, RE Ext of portion 2), Mooiplaats 165 IS (portions 4, 11, 12, 13, 15 and 16), Helpmekaar 168 IS – whole farm, Schoonoord 164 IS (portion 19), Leeuwpan 494 JS (portions 7, 8, 9, RE Ext and RE Ext. of portion 4); Weltevreden 174 IS (portions 1, 2 (M/A), 4 and RE Ext), Nooitgedacht 493 JS (portions 4 and 9)	15.532	Prospecting Right: MP30/5/1/1/2/360PR	Original application 30/10/2006 and 29/10/2011	Renewal of Prospecting Right pending and acquisition subject to successful approval of Prospecting Right transfer to Universal in accordance with Section 11 of MPRDA, 2002	50

7. Investments in subsidiaries

Significant subsidiaries of the Group, which are those with the most significant contribution to the Group's net profit or net assets, are currently limited to Universal Coal Development I (Pty) Limited, Universal Coal Development IV (Pty) Limited (amalgamated with Universal Coal Development VIII (Pty) Limited) and the North Block Complex (Pty) Limited.

All subsidiaries are incorporated in South Africa. There has been no change in this shareholding during year to date June 2019 except for:

- Eloff Mining and Agriculture Company (Pty) Limited effective ownership increased from 14.2% to 49% and
- Acquisition of North Block Complex (Pty) Limited and Manyeka Coal Mines (Pty) Limited – effective ownership of 49% respectively
- Universal Coal Development III (Pty) Limited – effective ownership decreased from 50.29% to 48.9%

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

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7. Investments in subsidiaries continued

Subsidiaries with non-controlling interests

Subsidiary	Country of incorporation	Principal activity	2019 Effective interest (%)	2018 Effective interest (%)
Universal Coal and Energy Holdings South Africa (Pty) Limited	South Africa	Mining and energy holding company	**100.00**	100.00
Episolve (Pty) Limited	South Africa	Coal prospecting and mining company	**74.00**	74.00
Epsimax (Pty) Limited	South Africa	Coal prospecting and mining company	**74.00**	74.00
Twin Cities Trading 374 (Pty) Limited	South Africa	Coal prospecting and mining company	**74.00**	74.00
Universal Coal Power Generation (Pty) Limited	South Africa	Coal prospecting and mining company	**100.00**	100.00
Universal Coal Development I (Pty) Limited	South Africa	Coal prospecting and mining company	**70.50**	70.50
Universal Coal Development II (Pty) Limited	South Africa	Coal prospecting and mining company	**50.00**	50.00
Universal Coal Development III (Pty) Limited	South Africa	Coal prospecting and mining company	**48.90**	50.29
Universal Coal Development IV (Pty) Limited	South Africa	Coal prospecting and mining company	**49.00**	49.00
Universal Coal Development V (Pty) Limited	South Africa	Coal prospecting and mining company	**50.00**	50.00
Universal Coal Development VII (Pty) Limited	South Africa	Coal prospecting and mining company	**50.00**	50.00
Universal Coal Development VIII (Pty) Limited	South Africa	Coal prospecting and mining company	**49.00**	49.00
North Block Complex (Pty) Limited	South Africa	Coal prospecting and mining company	**49.00**	–
Eloff Mining and Agriculture Company (Pty) Limited	South Africa	Coal prospecting and mining company	**49.00**	14.21
Manyeka Coal Mines (Pty) Limited	South Africa	Coal prospecting and mining company	**49.00**	–

The country of incorporation and the principal place of business are the same in all cases.

The investment in the directly held subsidiary, UCEHSA, at 30 June was:

	2019	2018
	A$'000	A$'000
Country of incorporation	**South Africa**	South Africa
Class of share	**Ordinary**	Ordinary
Portion held of the ordinary shares	**100**	100
Reconciliation of movements for the year:		
Balance at beginning of the year	**48 901**	60 258
Repayment of capital from subsidiary	**(2 598)**	(11 357)
Total carrying value at the end of the year	**46 303**	48 901

Control considerations where 50% or less of share capital held

Universal Coal Development II (Pty) Limited

Although the Group owns 50% of UCDII, management has determined that the Group controls the entity because within the shareholder arrangement UCEHSA has an option to purchase a further 24% of shares in UCDII. UCEHSA has the practical ability to exercise the option as no restriction exists on the exercise of the option. This potential voting right has therefore, been considered to be substantive and has been included in management's assessment as to whether UCEHSA has control.

Universal Coal Development IV (Pty) Limited

During the 2016 financial period, Ndalamo subscribed for an additional 102 shares in UCDIV for the amount of R40 million (A$3.6 million). Ndalamo settled the subscription price through effecting a draw down under the term loan agreement with UCEHSA. The Ndalamo loan is secured through a share pledge, bears interest at prime plus 1% per annum and is fully repayable by 30 June 2023 in varying capital installments. The balance of the equity share capital post the subscription represented 49% or 148 shares being held by UCEHSA.

The Ndalamo loan interest rate was reduced during the previous year. The original loan agreement included a loan interest of prime plus 7.5%. Subsequent to year-end, the Board approved the extension of the first loan repayment date to 30 June 2019 and the extension of the final settlement date to 30 June 2023.

Although the Group owns less than 50% of UCDIV, management has determined that the Group controls the entity because UCEHSA manages and directly controls the entity by virtue of an operating and management agreement, receiving substantially all of the returns related to their operations and net assets and has the current ability to direct the entities activities that most significantly affect these returns. The relevant activities are the mining, processing and selling of coal.

As UCEHSA has operational control over UCDIV, is exposed to and has rights to variable returns from its involvement with UCDIV and has the ability to affect those returns through its operational power over UCDIV, the company is accounted for as a subsidiary.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

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7. Investments in subsidiaries continued

Control considerations where 50% or less of share capital held continued

Eloff Agriculture and Mining Company (Pty) Limited (Eloff Project)

During the year, UCDIV acquired the remaining ownership in the Eloff Project and holds 100% of the shares at June 2019. The Group holds an effective shareholding of 49% in the Eloff Project through its investment in UCDIV.

As established above, UCEHSA has operational control over UCDIV and the company is therefore accounted for as a subsidiary.

Manyeka Coal Mines (Pty) Limited (Manyeka)

As part of the acquisition of the Eloff Project, UCDIV acquired 100% of Manyeka. Manyeka holds a 51% investment in the Eloff Project and was acquired to complete the 100% ownership of the Eloff Project. By virtue of this structure and in light of the above, the company is accounted for as a subsidiary.

Universal Coal Development III (Pty) Limited (Ubuntu Colliery)

Ndalamo obtained the 49.7% minority shareholding of the company from Unity Rocks Mining (Pty) Limited.

During the year, Ndalamo obtained a further 1.4% of the shares via a new share issue bringing its shareholding to 51.1% and reducing the Group's ownership percentage to 48.9% in order to adhere to regulatory requirements for offtake agreements.

Although the Group owns less than 50% of UCDIII, management has determined that the Group controls the entity because UCEHSA manages and directly controls the entity by virtue of an operating and management agreement and has the current ability to direct the entities activities. The relevant current activities are the development of the Ubuntu Colliery and infrastructure and planned future activities will be mining, processing and selling of coal.

As UCEHSA has operational control over UCDIII and is exposed to and has rights to variable returns from its involvement with UCDIII and has the ability to affect those returns through its operational power over UCDIII, the company is accounted for as a subsidiary.

North Block Complex (Pty) Limited (NBC)

On 1 November 2018, NBC acquired all of the assets and assumed certain liabilities of NBC Colliery from Exxaro Coal Mpumalanga Proprietary Limited and Exxaro Coal (Pty) Limited. UCEHSA holds 49% and Ndalamo holds the balance of 51% of the equity of NBC. Management has performed a control assessment as required under IFRS 10 *Consolidated financial statements* and concluded that UCEHSA directs the relevant activities of NBC and by virtue of this, has control over NBC.

Although the Group owns less than 50% of NBC, management has determined that the Group controls the entity because UCEHSA manages and directly controls the entity by virtue of an operating and management agreement, receiving substantially all of the returns related to their operations and net assets and has the current ability to direct the entities activities that most significantly affect these returns. The relevant activities are the mining, processing and selling of coal.

As UCEHSA has operational control over NBC, is exposed to and has rights to variable returns from its involvement with NBC and has the ability to affect those returns through its operational power over NBC, the company is accounted for as a subsidiary.

Universal Coal Development V (Pty) Limited

Although the Group owns 50% of UCDV, management has determined that the Group controls the entity because UCEHSA has an option to exercise a further 24% share purchase and has the practical ability to exercise the option as no restriction exists on the exercise of the option. Therefore, the right to exercise this option is considered substantive and has been included in management's assessment as to whether UCEHSA has control.

Universal Coal Development VII (Pty) Limited

Although the Group owns 50% of UCDVII, management has determined that the Group controls the entity because the chairman of the Board of UCDVII, who has the casting vote at Directors meetings, is a Director of and appointed by UCEHSA. The Board is responsible for the management of UCDVII.

Universal Coal Development VIII (Pty) Limited

Although the Group owns less then 50% (49%) of UCDVIII, management has determined that the Group controls the entity because UCEHSA manages and directly controls the entity by virtue of an operating and management agreement, receiving substantially all of the returns related to their operations and net assets and has the current ability to direct the entities activities that most significantly affect these returns. The relevant activities are the mining, processing and selling of coal.

The following tables summarise the information relating to each of the Group's material subsidiaries that has a material non-controlling interest (NCI):

Summarised statement of financial position

30 June 2019	NCI percentage %	Non-current assets A$'000	Current assets A$'000	Total assets A$'000	Non-current liabilities A$'000	Current liabilities A$'000	Total liabilities A$'000	Intra-group eliminations A$'000	Carrying amount of non-controlling interest A$'000
Universal Coal Development I (Pty) Limited	29.50	17 223	27 278	44 501	(9 372)	(21 012)	(30 384)	–	3 133
Universal Coal Development IV (Pty) Limited	51.00	44 038	36 361	80 399	(631)	(20 887)	(21 518)	(3 722)	29 035
Universal Coal Development VIII (Pty) Limited	51.00	44 346	154	44 500	(52 254)	–	(52 254)	3 722	(3 537)
North Block Complex (Pty) Limited	51.00	77 151	31 628	108 779	(52 886)	(25 520)	(78 406)	–	15 105
Non-controlling interest in all other subsidiaries									24 919
Non-controlling interest per statement of financial position									68 655

Other non-controlling interests of A$20.9 million relate to UCDII (A$15.4 million) and UCDIII (A$5.05 million) and represent the non-controlling interests of share of exploration assets.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

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7. Investments in subsidiaries continued

Summarised statement of comprehensive income

30 June 2019	NCI percentage %	Revenue A$'000	Profit/(loss) before tax A$'000	Tax expense A$'000	Profit/(loss) A$'000	Total comprehen-sive income A$'000	Profit/(loss) allocated to non-controlling interest A$'000
Universal Coal Development I (Pty) Limited	29.50	150 068	18 068	(5 672)	12 396	12 396	3 657
Universal Coal Development IV (Pty) Limited	51.00	187 748	40 482	(10 392)	30 090	30 090	15 346
Universal Coal Development VIII (Pty) Limited	51.00	(1 050)	(2 633)	–	(2 633)	(2 633)	(1 343)
North Block Complex (Pty) Limited	51.00	102 304	33 288	(3 671)	29 617	29 617	15 105
Profit or loss allocated to non-controlling interest of other subsidiaries							(316)
Total profit or loss allocated to non-controlling interest							32 449

Summarised statement of cash flows

30 June 2019	NCI percentage %	Cash flow from operating activities A$'000	Cash flow from financing activities A$'000	Cash flow from investing activities A$'000	Net increase (decrease) in cash flow A$'000
Universal Coal Development I (Pty) Limited	29.50	19 813	(18 552)	(3 106)	(1 845)
Universal Coal Development IV (Pty) Limited	51.00	37 365	(19 216)	(24 333)	(6 184)
Universal Coal Development VIII (Pty) Limited	51.00	(4 134)	3 982	(6)	(158)
North Block Complex (Pty) Limited	51.00	17 246	1 619	(13 091)	5 774
Total		70 290	(32 167)	(40 536)	(2 413)

Summarised statement of financial position

30 June 2018	NCI percentage %	Non-current assets A$'000	Current assets A$'000	Total assets A$'000	Non-current liabilities A$'000	Current liabilities A$'000	Total liabilities A$'000	Intra-group eliminations A$'000	Carrying amount of non-controlling interest A$'000
Universal Coal Development I (Pty) Limited	29.50	30 780	23 552	54 332	(18 257)	(21 917)	(40 174)	–	3 289
Universal Coal Development IV (Pty) Limited	51.00	16 666	48 693	65 359	(10 231)	(27 853)	(38 084)	(32 783)	13 689
Universal Coal Development VIII (Pty) Limited	51.00	46 533	1 358	47 891	(46 890)	(4 070)	(50 960)	32 783	(2 194)
Non-controlling interest in all other subsidiaries									23 963
Non-controlling interest per statement of financial position									38 747

Other non-controlling interests of A$20.9 million relate to UCDII (A$15.4 million) and UCDIII (A$5.05 million) and represent the non-controlling interests of share of exploration assets.

Summarised statement of comprehensive income

30 June 2018	NCI percentage %	Revenue A$'000	Profit/(loss) before tax A$'000	Tax expense A$'000	Profit/(loss) A$'000	Total comprehen-sive income A$'000	Profit/(loss) allocated to non-controlling interest A$'000
Universal Coal Development I (Pty) Limited	29.50	150 751	23 769	(6 948)	16 821	16 821	4 962
Universal Coal Development IV (Pty) Limited	51.00	162 689	21 553	(6 201)	15 352	15 352	7 829
Universal Coal Development VIII (Pty) Limited	51.00	44 798	(1 973)	525	(1 448)	(1 448)	(739)
Profit or loss allocated to non-controlling interest of other subsidiaries							(57)
Total profit or loss allocated to non-controlling interest							11 995

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

7. Investments in subsidiaries continued

Summarised statement of cash flows

30 June 2018	NCI percentage %	Cash flow from operating activities A$'000	Cash flow from financing activities A$'000	Cash flow from investing activities A$'000	Net increase (decrease) in cash flow A$'000
Universal Coal Development I (Pty) Limited	29.50	35 976	(32 348)	(4 799)	(1 151)
Universal Coal Development IV (Pty) Limited	51.00	14 994	11 012	(10 058)	15 948
Universal Coal Development VIII (Pty) Limited	51.00	6 590	(2 388)	(6 315)	(2 113)
Total		57 560	(23 724)	(21 152)	12 684

A dividend of A$3,8 million (2018: A$3,8 million) was paid by UCDI to its non-controlling shareholder.

8. Investments in associated undertakings

Group has interests in two associates at year end June 2019, The following table summarises, in aggregate, the carrying amount and share of profit and other comprehensive income of these individually immaterial associated undertakings:

GROUP Name of company	2019 % ownership interest	2018 % ownership interest	2019 Carrying amount	2018 Carrying amount
Universal Coal Logistics (Pty) Limited	**49.00**	49.00	22	16
Universal Coal Development VI (Pty) Limited	**15.00**	15.00	14	10
Eloff Mining and Agriculture Company (Pty) Limited	**49.00**[1]	14.21	–	8 200
Total			36	8 226

[1] *During the year, the Group's effective interest in Eloff Mining and Agriculture Company (Pty) Limited increased to 49% and as such it is treated as a subsidiary (note 7)*

	Group	
	2019	2018
	A$'000	A$'000
Carrying amount of investments accounted for using the equity method		
Opening balance	**8 226**	8 340
Investment in the year	**10**	11
Disposal of associated undertaking	**(8 200)**	–
Share of operating profit of associated undertakings	**30**	187
Foreign exchange movement in opening balances	**(30)**	(312)
Total carrying value at the end of the year	**36**	8 226

On 30 June 2017, UCDIV acquired 29% of the shares of the Eloff Mining Company (Pty) Limited and paid A$4.35 million in cash for the investment. The investment includes the Group's share of the difference between the acquisition price and its share of the fair value of the associates net assets on acquisition. The fair value increase mainly related to the intrinsic market value of the coal resource held by the associate at acquisition. Coal resource valuation are considered a significant judgement per note 1.18.

All the associate companies are incorporated in South Africa and operate in the coal mining industry.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

8. Investments in associated undertakings continued

Summarised financial information of material associates

	Group		Company	
	2019	2018	2019	2018
	A$'000	A$'000	A$'000	A$'000
Eloff Mining Company (Pty) Limited				
Statement of financial position				
Assets				
Non-current assets	–	5 569	–	–
Current assets	–	1 560	–	–
Liabilities				
Non-current liabilities	–	(79)	–	–
Current liabilities	–	(2 935)	–	–
Total net assets	–	4 115	–	–
Statement of profit/loss and other comprehensive income				
Revenue	–	352	–	–
Profit from continuing operations	–	149	–	–

9. Loan receivable

Loans and receivables				
Ndalamo Resources (Pty) Limited	**9 948**	10 575	–	–

The loan is secured against a share pledge of Ndalamo's shares in UCDIV and UCDVIII, bears interest at prime plus 1% per annum and is fully repayable by 30 June 2023 in varying annual capital installments. Repayment of this loan has commenced on 30 June 2019. The balance of A$9.9 million above, comprising of interest and capital, is a net effect of A$19.9 million (2018: A$23.1 million) which has been loaned to Ndalamo, of which A$10 million (2018: A$12.5 million) has been lent on to UCDIV and UCDVIII. On consolidation, this amount is offset due to offsetting rights included in the agreements.

10. Other financial assets

	Group		Company	
	2019	2018	2019	2018
	A$'000	A$'000	A$'000	A$'000
Mining rehabilitation guarantees				
Opening balance	**2 658**	1 293	**–**	–
Acquired during the year	**1 436**	1 365	**–**	–
Closing balance	**4 094**	2 658	**–**	–

Legislation stipulates that all mining operations within South Africa are required to make provision for environmental rehabilitation during the LoM and at closure. In line with this requirement, the Company entered into policies with a reputable insurance broker to set aside funds for aforementioned purposes. On the back of these policies, the insurance broker provides the required mining rehabilitation guarantees which are accepted by the DMR. The Company makes annual premium payments towards structured products that will allow the matching of the environmental rehabilitation liability against Company assets over a period of time.

This financial asset comprises the premium paid to the insurer, plus interest, less charges and claims paid by the insurer to the Company and is measured at amortised cost, as the formula includes the effect of the time value of money.

11. Inventories

	Group		Company	
	2019	2018	2019	2018
	A$'000	A$'000	A$'000	A$'000
Raw materials, components	**2 589**	1 465	**–**	–
Coal product stockpiles	**2 633**	2 015	**–**	–
Consumable stores	**5**	–	**–**	–
Diesel on hand	**257**	186	**–**	–
	5 484	3 666	**–**	–

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

12. Trade and other receivables

	Group		Company	
	2019	2018	2019	2018
	A$'000	A$'000	A$'000	A$'000
Trade receivables	**55 611**	39 585	**–**	1 231
Deposits	**11**	11	**–**	–
Financial assets	**55 622**	39 653	**–**	1 231
VAT	**5 254**	2 513	**273**	14
Prepayments	**2 847**	2 308	**5 567**	73
	63 723	44 417	**5 840**	1 318

Significant prepayments: Universal Coal Development VII (Pty) Limited

On 19 April 2012, UCEHSA acquired one ordinary share (50%) of UCD VII, a special purpose entity formed with the intention of acquiring additional prospecting rights in South Africa. Because certain conditions precedent still have to be concluded, the contribution of A$1 759 994 (2018: A$1 709 311) is included in prepayments.

13. Cash and cash equivalents

	Group		Company	
	2019	2018	2019	2018
	A$'000	A$'000	A$'000	A$'000
Cash and cash equivalents consist of:				
Bank balances	**31 312**	33 543	**1 457**	1 802
Restricted cash	**828**	3 329	**–**	–
	32 140	36 872	**1 457**	1 802
Restricted cash and cash equivalents				
Restricted cash and cash equivalents consist of standby equity and security for financial and supplier guarantees provided by financial institutions on behalf of the Group				
Supplier guarantees	**828**	724	**–**	–

Supplier guarantees

Supplier guarantees have been provided to certain suppliers of UCDI and have been fully secured by a cash balance of A$0.8 million (2018: A$0.7 million).

Financial guarantees

A financial guarantee was provided to Exxaro Coal Central (Pty) Limited as a condition precedent to a sale of shares and claims agreement relating to Eloff Mining Company (Pty) Limited, and was fully secured by a cash balance of A$0.9 million at 30 June 2018. During the year, this guarantee was redeemed by Exxaro and the funds were released, as the acquisition was finalised.

A financial guarantee was provided to Exxaro Coal Mpumalanga (Pty) Limited as a condition precedent to a sale of assets agreement relating to the purchase of NBC assets and liabilities and were fully secured by a cash balance of A$1.7 million at 30 June 2018. During the year, this guarantee was redeemed by Exxaro and the funds were released as the acquisition was finalised.

14. Share capital

	Group		Company	
	2019	2018	2019	2018
	A$'000	A$'000	A$'000	A$'000
Issued				
522 471 758 ordinary shares of £0.05	**44 466**	44 466	**44 466**	44 466

Holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

15. Reserves

Share capital relates to the value of the shares issued.

The foreign currency translation reserve relates to the foreign exchange effect of the translation of the Group's overseas subsidiaries on consolidation into the Group's financial statements.

The accumulated loss reserve is the cumulative net losses recognised in the statement of comprehensive income adjusted for transfer on exercise, cancellation or expiry of options from the share option reserve.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

16. Borrowings

	Group		Company	
	2019	2018	2019	2018
	A$'000	A$'000	A$'000	A$'000
Non-current liabilities				
Investec project finance facilities	**1 460**	21 997	**–**	–
Capital Harvest project finance facilities	**8 185**	–	**–**	–
	9 645	21 997	**–**	–
Current liabilities				
Current portion of Investec project finance				
Facilities	**10 976**	10 979	**–**	–
Current portion of Capital Harvest project				
Finance facilities	**947**	–	**–**	–
	11 923	**10 979**	**–**	–
Finance facilities				
Investec project finance facilities	**12 436**	32 976	**–**	–
Capital Harvest project finance facilities	**9 132**	–	**–**	–
	21 568	32 976	**–**	–

Investec project finance facilities

On 31 July 2015, Universal Coal entered into new financing agreements with Investec Bank Limited (Investec), acting through its corporate and institutional banking division.

Funds from the Investec facility are available as follows:

- Tranche A: Settlement of the Kangala project finance facility of A$28.5 million (R285 million plus R5 million for fees)
- Tranche A: A working capital facility: A$2.5 million (R25 million) facility for working capital for the Kangala Colliery
- Tranche B: A$21.2 million (R215 million) facility to fund the balance of capital development activities at NCC

The Kangala loan bears interest at three month JIBAR plus 4% per annum and the NCC loan at three month JIBAR plus 4.5% per annum.

Repayment of Tranche A will follow a quarterly cycle over 20 repayment periods, with interest being serviced simultaneously. The revolving working capital facility has a tenure of five years and must be repaid at the end of the period. Repayment of Tranche B will benefit from a repayment holiday for the first 12 months, and 16 quarterly repayments will be made thereafter. Interest on this second tranche will be serviced quarterly following draw-down.

Security over the debt facilities are standard for a facility of this nature, and involve first ranking security over assets, including bonds over movable, immovable, mining and surface rights. A project completion guarantee for NCC was provided from the parent Company, Universal Coal Plc which was released in December 2017 upon NCC reaching completion phase.

Transaction costs (debt issuance costs) of R9.4 million (A$0.9 million) have been settled by utilising the finance facility. Debt issuance costs are recorded as a deferred charge and amortised over the term of the debt using the effective interest method.

Investec short-term loan

A short-term uncommitted revolving working capital facility of A$2.5 million (R25 million) has been provided to the Kangala Colliery by Investec which is secured in line with the security package for the project financing facility. Interest on the daily outstanding balance is levied at JIBAR plus 4% per annum.

At the end of the year the full working capital facility was undrawn and available for draw-down as required.

Capital Harvest facility – Eloff

On 19 October 2018, Universal Coal entered into new financing agreements with Capital Harvest Emerging Farmer Finance (Pty) Limited (CHEFF).

Details of funds from the CHEFF facility are as follows:

Type	Term loan
Term	120 months
Finance rate	Prime + 0.25%
Repayment plan	Quarterly interest + capital instalments
Finance amount	A$9.4 million (R95 million)
Initiation fee	A$187 000 (R1.9 million)

Security provided by Eloff Project is via a bond of A$9.8 million (R100 million) covering the properties of Eloff Project as well as cession of all income generated by these properties.

Security provided by Universal Coal Plc:

- General deed of suretyship limited to A$9.8 million (R100 million) for the obligation of Eloff Project
- Cession of shareholder loan limited to A$9.8 million (R100 million) due by UCEHSA to Universal Coal Plc

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

17. Deferred tax

	Group	
	2019	2018
	A$'000	A$'000
Reconciliation of deferred tax liability		
At beginning of year	**11 246**	10 124
Foreign exchange adjustments to balance at beginning of the year	**223**	(163)
Statement of comprehensive income charge	**7 124**	1 143
Resulting from acquisition of NBC	**8 045**	–
Foreign exchange adjustments to spot at year end	**441**	142
Balance at the end of the year	**27 079**	11 246
Comprising		
Deferred tax liability	**40 082**	21 687
Deferred tax asset	**(13 003)**	(10 441)
Total net deferred tax liability	**27 079**	11 246
The deferred tax assets and liabilities are offset to determine the amounts stated in the consolidated statements of financial position when the taxes can be legally offset and will be settled net.		
Deferred tax comprises		
Deferred tax liability		
Accelerated capital allowances for tax purposes	**31 546**	13 173
Fair value increases in assets not recognised for tax purposes	**–**	8 514
Resulting from acquisition of NBC	**8 536**	–
Total deferred tax liability	**40 082**	21 687
Deferred tax asset		
Timing difference on rehabilitation provision	**(9 378)**	(10 441)
Tax losses	**(822)**	–
Stock	**(2 803)**	–
Deferred tax balance from temporary differences other than unused tax losses	**(13 003)**	(10 441)
Net deferred tax liability	**27 079**	11 246

Deferred tax assets of A$13 003 000 (2018: A$10 441 000) have been recognised due to the deductible temporary differences arising from the rehabilitation provision which will be utilised by future taxable profits. The Directors believe it will be probable that these tax assets will be recovered through future taxable profits generated by the Group.

All other tax losses carried forward are in entities for which no taxable profit is anticipated to arise in the near future. No deferred tax asset has been recognised on these losses as there is no certainty that sufficient profits will arise in future accounting periods from which these losses could be offset. The estimated unrecognised deferred tax asset is A$7 022 758 (2018: A$7 123 374).

18. Provisions

Reconciliation of provisions – Group – 2019

	Opening balance	Increase/ (decrease) in provision – change in estimate	Unwinding of provision	Foreign exchange movement	Total
	A$'000	A$'000	A$'000	A$'000	A$'000
Environmental rehabilitation – Kangala	4 288	–	88	122	4 498
Environmental rehabilitation – NCC	31 612	(9 338)	2 867	862	26 003
Environmental rehabilitation – NBC	–	41 556	105	2 535	44 196
	35 900	32 218	3 060	3 519	74 697

Reconciliation of provisions – Group – 2018

	Opening balance	Increase/ (decrease) in provision – change in estimate	Unwinding of provision	Foreign exchange movement	Total
	A$'000	A$'000	A$'000	A$'000	A$'000
Environmental rehabilitation – Kangala	3 541	271	545	(69)	4 288
Environmental rehabilitation – NCC	28 800	992	2 466	(646)	31 612
	32 341	1 263	3 011	(715)	35 900

The rehabilitation provision relates to the estimated costs of correcting any disturbance relating to mining activities and those incidental thereto for the Kangala and NCC. The level of provision is commensurate with work completed to date.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

18. Provisions continued

The cost of rehabilitation of the Kangala Colliery was estimated at A$4.4 million (2018: A$4.2 million). The future value of the Kangala provision was calculated by escalating estimated costs at CPI of 6% per annum over the life of the mine of one year. This amount is discounted at the 10 year South African Government bond rate of 8.94% to arrive at a carrying value of A$4.5 million (2018: A$4.3 million).

The cost of rehabilitation of NCC was estimated at A$31.1 million (2018:A$39.4 million). The future value of the NCC provision was calculated by escalating estimated costs at CPI of 6% per annum over the life of the relevant pit or section. This amount is discounted at the 10 year South African government bond rate of 8.94% to arrive at a carrying value of A$26.0 million (2018: A$31.6 million).

The movement in NCC rehabilitation estimation for 2019 consists of the following:

	2019
	A$/m
Vaalkrantz actual rehabilitation cost	(3.5)
Diepspruit reversal of liability due to change in volumes estimation	(10.3)
Increase in Roodekop Liability for the year	4.5
Total movement for the year	(9.3)

The cost of rehabilitation of NBC was estimated as A$44.2 million. This amount was not discounted as the obligation to rehabilitate relates to the Glisa and Eerstelingfontein pits with LoM for these pits ending in the upccoming year. A potential to extend the obligation exists which is contingent upon the transfer of the Paardeplaats Mining Right. Refer to note 13 for financial guarantee undertaken on the environmental rehabilitation provision.

19. Trade and other payables

	Group		Company	
	2019	2018	2019	2018
	A$'000	A$'000	A$'000	A$'000
Non-current liabilities				
Deferred consideration – Ubuntu	3 049	–	–	–
	3 049	–	–	–
Current liabilities				
Trade payables	40 966	26 094	53	20
Deferred revenue	170	3 148	–	–
Accruals and other payments	9 666	13 429	56	47
Deferred consideration – Ubuntu	813	–	–	–
Deferred Consideration – NBC	7 266	–	–	–
	58 881	42 671	109	67

Deferred consideration – Ubuntu

On 22 February 2019, Universal Coal entered into an instalment sale agreement to purchase the land on which Ubuntu is on.

Details of the instalment sale agreement are as follows:

Type	Instalment sale agreement
Term	5 years
Finance Rate	None
Repayment Plan	20 quarterly payments commencing on 30 June 2019
Security	None

Deferred consideration – NBC

The deferred consideration arose from the acquisition of NBC from Exxaro. Please refer to note 4 for the details.

20. Operating profit

	Group	
	2019	2018
GROUP	A$'000	A$'000
Operating profit for the year is stated after accounting for the following:		
auditors' remuneration		
Amounts received or due and receivable by BDO (UK) for:		
The audit of the company's annual accounts	**174**	117
Non audit services	**85**	45
Amounts received or due and receivable by related practices of BDO (UK) for:		
The audit of subsidiary undertakings	**192**	227
Depreciation on property, plant and equipment	**674**	441
Amortisation on intangible assets (software)	**152**	173

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

		Group	
		2019	2018
	Note	A$'000	A$'000
21. Cost of sales			
Sale of goods			
Mining costs		**126 211**	90 976
Processing costs		**28 632**	23 429
Materials handling		**7 710**	5 306
Inventory movement		**(1 205)**	820
Indirect costs		**23 539**	977
Royalties and commissions		**4 877**	9 482
Ancillary costs		**18 747**	3 749
Depreciation of mining assets		**25 705**	18 320
Distribution costs		**90 900**	72 177
Rehabilitation provision reversal	18	**(10 325)**	(6 352)
		314 791	235 884
22. Finance income			
Interest revenue			
Bank and fixed deposit interest		**2 754**	1 425
Ndalamo loan interest		**2 466**	2 372
		5 220	3 797

	Group	
	2019	2018
	A$'000	A$'000
23. Finance expenses		
Interest on finance facilities	**3 837**	3 928
Unwinding of rehabilitation provisions	**3 060**	3 011
Converting notes – interest	**–**	556
	6 897	7 495
24. Taxation		
Analysis of the tax charge		
Major components of the tax expense		
Current		
Local income tax – current period	**14 426**	12 335
Dividend withholding tax	**756**	–
	15 182	12 335
Deferred		
Deferred tax	**7 044**	1 144
	22 226	13 479
Factors affecting the tax charge		
The assessed tax rate for the year is different to the standard rate of corporation tax in South Africa		
Profit on ordinary activities before tax	**92 616**	49 451
Tax at the applicable tax rate of 28% (2018: 28%)	**(25 932)**	(13 846)
Tax effect of adjustments on taxable income		
Non taxable gain on bargain purchase	**5 792**	–
Non-deductible expenses	**(1 125)**	(482)
Tax losses utilised	**5 645**	5 943
Dividends witholding tax	**(756)**	–
Tax losses not recognised	**(5 850)**	(5 094)
Total taxation	**(22 226)**	(13 479)

The estimated tax loss available for set off against future taxable income is A$23.4 million (2018: A$25.4 million). The tax loss is available in Universal Coal Plc.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

	Group		Company	
	2019	2018	2019	2018
	A$'000	A$'000	A$'000	A$'000
25. Cash generated from/(utilised in) operations				
Profit before taxation	**92 616**	49 451	**17 967**	1 780
Adjustments for:				
Depreciation and amortisation	**26 531**	18 934	**–**	–
Finance income	**(5 220)**	(3 797)	**(2 201)**	(2 598)
Finance expenses	**6 897**	7 495	**–**	556
Bargain purchase gain	**(20 687)**	–	**–**	–
Foreign exchange (gain)/loss	**(123)**	70	**–**	59
(Decrease)/increase in fair value of derivative financial liability	**–**	(277)	**–**	(277)
Share of profit of associated undertaking	**–**	(187)	**–**	–
Rehabilitation provision reversal	**(10 325)**	(6 352)	**–**	–
Changes in working capital				
(Increase)/decrease in inventories	**7 959**	1 408	**–**	–
(Increase)/decrease in trade and other receivables	**(17 954)**	(23 411)	**(5 279)**	786
Increase/(decrease) trade and other payables	**11 207**	20 832	**44**	(151)
	90 901	64 166	**10 531**	155

	Group		Company	
	2019	2018	2019	2018
	A$'000	A$'000	A$'000	A$'000
26. Significant non-cash transactions				
Operating activities				
Depreciation and amortisation	**26 531**	18 934	**–**	–
Share of profit of associated undertaking	**–**	(187)	**–**	–
Bargain purchase gain	**(20 687)**			
Rehabilitation provision reversal	**(10 325)**	(6 352)	**–**	–
	(4 481)	12 395	**–**	–
Investing activities				
Finance income accrued (not received in cash at year end)	**(2 588)**	(2 401)	**(2 198)**	–
Additions to tangible fixed assets	**(19 150)**	(7 586)	**–**	–
	(21 738)	(9 987)	**(2 198)**	–
Financing activities				
Finance expenses (accrued not paid in cash at year end)	**3 203**	4 203	**–**	494
Derivative financial liability	**–**	(277)	**–**	(277)
	3 203	3 926	**–**	217

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

27. Note supporting statement of cash flows

2019	Non-current loans and borrowings (note 16) A$'000	Current loans and borrowings (note 16) A$'000
At 1 July 2018	21 997	10 979
Cashflows		
Draw down from finance facilities	**9 328**	**–**
Repayment of finance facilities	**(22 093)**	**–**
Finance expenses	**(3 694)**	**–**
Non-cashflows		
Finance cost accruing in the year	**3 837**	**645**
Transfer from non current to current borrowings	**(645)**	**–**
Effects of foreign exchange	**915**	**299**
At 30 June 2019	**9 645**	**11 923**

2018	Non-current loans and borrowings (note 16) A$'000	Current loans and borrowings (note 16) A$'000	Converting notes A$'000
At 1 July 2017	25 068	6 539	1 476
Cashflows			
Draw down from Investec project finance facilities	8 658	–	–
Repayment of Investec project finance facilities	(6 740)	–	–
Shareholder loan repayment	(899)	–	–
Cash settlement of converting notes	–	–	(1 970)
Finance expenses	(3 230)	–	(62)
Non-cashflows			
Finance cost accruing in the year	3 928	–	556
Transfer from non current to current borrowings	(4 546)	4 546	–
Effects of foreign exchange	(242)	(106)	–
At 30 June 2018	**21 997**	**10 979**	**–**

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

28. Related parties

Relationships

Holding company	Universal Coal and Energy Holdings South Africa (Pty) Limited
Subsidiaries	Universal Coal Development I (Pty) Limited Universal Coal Development II (Pty) Limited Universal Coal Development III (Pty) Limited Universal Coal Development IV (Pty) Limited Universal Coal Development V (Pty) Limited Universal Coal Development VII (Pty) Limited Universal Coal Development VIII (Pty) Limited Twin Cities Trading 374 (Pty) Limited Epsimax (Pty) Limited Episolve (Pty) Limited Bold Moves 1765 (Pty) Limited Universal Coal Power Generation (Pty) Limited Eloff Mining and Agriculture Company (Pty) Limited Manyeka Coal Mines (Pty) Limited North Block Complex (Pty) Limited
Associated undertakings	Universal Coal Development VI (Pty) Limited Universal Coal Logistics (Pty) Limited
BEE partners	Unity Rocks Mining (Pty) Limited Mountain Rush Trading 6 (Pty) Limited Solar Spectrum Trading 365 (Pty) Limited Proper Health (Pty) Limited Pacific Breeze Trading 725 (Pty) Limited Azaramix Investments (Pty) Limited One (Pty) Limited Ndalamo Resources (Pty) Limited Bono Lithihi Investments Group (Pty) Limited
Other related parties and connected persons	KEE Enterprises (Pty) Limited Henri Bonsma John Hopkins Tony Webber Shammy Luvhengo Coal Development Holding B.V. African Minerals Exploration and Development GP SARL (Directors: Carlo Baravalle and David Twist) IchorCoal N.V. (Directors: Nonkululeko Nyembezi and Andries Engelbrecht) Bonsma Enterprises (Pty) Limited

	Group		Company	
	2019	2018	2019	2018
	A$'000	A$'000	A$'000	A$'000
Related party balances				
Loan to related party				
Ndalamo Resources (Pty) Limited	**9 948**	10 575	**–**	–
Related party transactions				
Consulting fees paid to related parties				
African Minerals Exploration and Development GP SARL	**160**	160	**–**	–
IchorCoal N.V.	**147**	160	**–**	–
Mountain Rush Trading 6 (Pty) Limited	**8 756**	8 715	**–**	–
Ndalamo Resources (Pty) Limited	**7 488**	4 207	**–**	–
Dividend paid to related parties				
Mountain Rush Trading 6 (Pty) Limited	**3 813**	6 912	**–**	–
Rent paid to related parties				
KEE Enterprises (Pty) Limited	**138**	109	**–**	–
Shareholder loan repayment				
Shareholder loan repayment	**–**	899	**–**	–

UCDI secured a portion of the 100% Kangala equity funding requirement of A$16.9 million (R160 million) through a shareholders loan of A$4.30 million (R47.2 million) from BEE partner Mountain Rush Trading 6 (Pty) Limited. A shareholder loan repayment of A$0.9 million (R9.3 million) was made during the prior year that settled the loan.

On 12 August 2014, a financing term sheet was entered into between UCEHSA and Ndalamo for the financing of the NCC Roodekop Project. The loan is secured against a share pledge of Ndalamo's shares in UCD VIII and UCDIV, bears interest at prime plus 1% per annum and is fully repayable by 30 June 2023 in varying capital installments. The balance above comprising of interest and capital, is a net effect of A$19.9 million (2018: A$23.1 million) which has been loaned to Ndalamo of which A$10 million (2018: A$12.4 million) has been lent to UCDIV and UCDVIII. On consolidation, this amount is offset due to offsetting rights included in the agreements.

On 5 December 2012, the Company entered into a private placement agreement with Coal Development Holding B.V. (CDH) a wholly owned investment vehicle of African Minerals Exploration and Development GP SARL for the acquisition of 29.99% of the issued share capital of Universal Coal Plc. One of the key terms of the placement was that CDH has the right to nominate two Non-executive Directors to the Company's Board. Following shareholder approval at the Company's AGM on 21 December 2012, the Board of Universal Coal Plc approved the appointment of Mr David Twist and Mr Carlo Baravalle as Non-executive Directors effective from 7 January 2013. Monthly fees of A$13.3 thousand are payable to African Minerals Exploration and Development GP SARL. During FY2018 Mr Baravalle acquired 750 000 shares for A$152.5k, Mr Bonsma acquired 288 766 shares for A$72.9k and Mr Twist acquired 165,556 shares for A$36.8k. All shares were acquired on market and at market value and has been disclosed to market according to the ASX listing rules.

No shares were acquired by Directors during FY2019.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

28. Related parties continued

Relationships continued

On 1 September 2014, Universal Coal Plc entered into a Subscription agreement with IchorCoal N.V. for the strategic investment of A$24.5 million and furthermore entered into a warrant instrument with IchorCoal N.V. whereby IchorCoal N.V. would subscribe for 71 220 000 warrants, exercisable for a period of 18 months at a strike price of A$0.36. As part of the investment and effective from 16 October 2014, Ms Nonkululeko Nyembezi and Mr Andries Engelbrecht were appointed to the Board of Universal Coal as nominee Directors of IchorCoal N.V. Monthly fees of A$13.3 thousand are payable to IchorCoal N.V. On 3 May 2019, IchorCoal N.V. ceased to be a shareholder and the aforementioned directors resigned from the Board.

A lease agreement was entered into with KEE Enterprises on 1 October 2018 for office rental in South Africa. The controlling shareholder of KEE Enterprises, Henri Bonsma is also a Non-executive Director of Universal Coal Plc. The period of the lease is for five years at a market related rental of A$11.5 thousand per month with an annual escalation clause of 8% per annum.

During the year, UCDI declared and paid a dividends to a total of R130 000 per share. A total dividend of A$3.81 million (R38 350 000) was paid to Mountain Rush Trading 6 (Pty) Limited.

29. Financial instruments and risk management

Financial risk management

A. Accounting classifications and fair values

The Group's activities expose it to a variety of financial risks, in particular market risk (including currency risk, fair value and interest rate risk) and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the Group's performance. The Board, on behalf of the members, carries out risk management and governance practices.

			Financial assets		Financial liabilities	
		Fair value hierarchy	Carrying amount	Fair value	Carrying amount	Fair value
The financial instruments of the Group are:	Note		A$'000	A$'000	A$'000	A$'000
30 June 2019						
Financial assets						
Trade and other receivables [1]	12	Level 2	55 622	55 622	–	–
Unrestricted cash [1]	13	Level 2	31 312	31 312	–	–
Restricted cash [1]	13	Level 2	828	828	–	–
Loan receivable [1]	9	Level 2	9 948	9 948	–	–
Other financial assets	10	Level 2	4 094	4 094	–	–
			101 804	101 804	–	–

The financial instruments of the Group are:	Note	Fair value hierarchy	Financial assets Carrying amount A$'000	Financial assets Fair value A$'000	Financial liabilities Carrying amount A$'000	Financial liabilities Fair value A$'000
Financial liabilities						
Trade payables [1]	19	**Level 2**	**–**	**–**	**58 881**	**58 881**
Borrowings [2]	16	**Level 2**	**–**	**–**	**21 568**	**21 568**
			101 804	**101 804**	**83 498**	**83 498**
30 June 2018						
Financial assets						
Trade and other receivables [1]	12	Level 3	39 653	39 653	–	–
Unrestricted cash [1]	13	Level 2	33 543	33 543	–	–
Restricted cash [1]	13	Level 2	3 329	3 329	–	–
Loan receivable	9	Level 3	10 575	10 575	–	–
Other financial assets	10	Level 3	2 658	2 658	–	–
			89 758	89 758	–	–
Financial liabilities						
Trade payables [1]	19	Level 3	–	–	42 671	42 671
Borrowings [2]	16	Level 3	–	–	32 976	32 976
			89 758	89 758	75 647	75 647

[1] *The carrying amount of these financial assets and liabilities are a reasonable approximation of their fair values*

[2] *Financial liabilities recognised at amortised cost*

[3] *Financial liabilities designated as at fair value through profit or loss*

VAT and prepayments of A$8.1 million (2018: A$4.8 million) and provisions and deferred tax of A$102 million (2018: A$46 million) have been excluded as these do not meet the definition of a financial asset or financial liability as defined in IAS 32 *Financial instruments: Presentation*.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

29. Financial instruments and risk management continued

Financial risk management continued

A. Accounting classifications and fair values continued

			Financial assets		Financial liabilities	
The financial instruments of the Company are:	Note	Fair value hierarchy	Carrying amount	Fair value	Carrying amount	Fair value
			A$'000	A$'000	A$'000	A$'000
30 June 2019						
Financial assets						
Trade and other receivables [1]	12	**Level 3**	**–**	**–**	**–**	**–**
Bank balances [1]	13	**Level 2**	**1 457**	**1 457**	**–**	**–**
			1 457	**1 457**	**–**	**–**
Financial liabilities						
Trade payables [1]	19	**Level 3**	**–**	**–**	**109**	**109**
			1 457	**1 457**	**109**	**109**
30 June 2018						
Financial assets						
Trade and other receivables [1]	12	Level 3	1 231	1 231	–	–
Unrestricted cash [1]	13	Level 2	1 802	1 802	–	–
			3 033	3 033	–	–
Financial liabilities						
Trade payables [1]	19	Level 3	–	–	67	67
			3 033	3 033	67	67

[1] *The carrying amount of these financial assets and liabilities are a reasonable approximation of their fair values*

[2] *Financial liabilities recognised at amortised cost*

[3] *Financial liabilities designated as at fair value through profit or loss*

Prepaid expenses and VAT of A$0.55 million (2018: A$0.08 million) as well as dividends receivable of A$5.3 million have been excluded as these do not meet the definition of a financial asset or financial liability as defined in IAS 32 *Financial instruments: Presentation*.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while optimising the debt and equity balance. The capital structure of the Group consists of equity comprising issued share capital, equity reserves, retained earnings and debt comprising of long term loans and short term loans. Where future investment in the interest in associates or other Group projects is required, the Board will assess the structure of whether it can be funded from existing resources or financing arrangements as appropriate.

The Group finances its operations through equity and debt. During the current year, the Group raised finance to fund the purchase of Eloff. No subsidiary company of the Group is permitted to enter into any borrowing facility or lease agreement without prior consent of the Company.

Foreign exchange risk

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group's policy is, where possible, to allow Group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where Group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

The Group's subsidiary entities all have functional currencies of South African rand. The majority of transactions entered into by the entities and the denomination of assets/liabilities are in South African rand.

As the functional currency of Universal Coal Plc is Australian dollar there are significant foreign exchange gains or losses recognised in other comprehensive income of the consolidation of subsidiaries. However, this is not considered a financial instruments risk for the Group as there is no monetary gain or loss. The Group is however exposed to South African rand to Australian dollar currency risk on future distributions made by the subsidiaries which management monitors on a continuing basis.

Exchange rates used for conversion of foreign items were:

	2019	% change	2018	% change	2017
R:AUD (average)	**10.1465**	1.92	9.9550	(2.88)	10.2501
R:AUD (spot)	**9.8938**	(2.66)	10.1640	(1.64)	10.0003
GBP:AUD (average)	**0.5529**	(3.91)	0.5754	(3.18)	0.5943
GBP:AUD (spot)	**0.5531**	(1.34)	0.5606	(5.14)	0.5910

Foreign currency risk sensitivity analysis

	2019	2018
	A$'000	A$'000
Change in profit/(loss) – (AUD:R)		
Improvement in AUD to R by 10%	**(4 967)**	(4 496)
Decline in AUD to R by 10%	**9 159**	5 495

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

29. Financial instruments and risk management continued

Price risk

Prices ultimately received for coal sales in relation to the Group's investments will have significant impact on the profitability and viability of all projects in which the Group has an interest. An increase in prices may have significant and leveraged effect on the current and future values of projects and shares held, the converse will apply where prices fall.

Kangala, NBC and NCC have contracted prices with a major customer in Eskom Holdings SOC Limited, which is not subject to global commodity pricing fluctuations. However, Kangala and NCC have contracted sale agreements with Glencore Plc which are subject to the global commodity price fluctuations as well as foreign exchange variances.

The Company does not currently have a foreign exchange hedging policy, but the exposure will be managed as export sales volumes increase in the future.

Interest rate on financial assets and liabilities

The Group's financial assets consist of cash and cash equivalents and other receivables. The Group earns interest on its cash and cash equivalents, and consequently the Group is exposed to cash flow interest rate risk on its financial assets which earn interest based on variable interest rates. To mitigate this risk, the cash balance maintained by the Group is proactively managed in order to ensure that the maximum level of interest is received for the available funds but without affecting the working capital flexibility that the Group requires.

The Group's financial liabilities consist of borrowings, trade payables and a shareholder's loan. The Group incurs interest on its borrowings (variable) and is exposed to cash flow interest rate risk on borrowings. The Group does not enter into hedging agreements at this point in time and proactively manages cash flow interest rate risk by analysing interest rate forward curves.

At 30 June 2019, if interest rates on Australian dollar-denominated cash balances had been 1% higher/(lower) with all other variables held constant, post-tax profit for the year would have been A$9 873 (2018: A$10 171) higher/(lower), mainly as a result of higher/(lower) interest rates.

At 30 June 2019, if interest rates on rand-denominated cash balances had been 1% higher/(lower) with all other variables held constant, post-tax profit for the year would have been A$333 560 (2018: A$248 905) higher/(lower), mainly as a result of higher/(lower) interest rates.

The Group and Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate for each class of financial assets and financial liabilities comprises:

GROUP	Fixed interest rate A$'000	Floating interest rate A$'000	Fixed interest maturing within one year A$'000	Non-interest bearing A$'000	Total A$'000
30 June 2019					
Financial assets					
Cash and cash equivalents	–	32 140	–	–	32 140
Trade and other receivables	–	–	–	55 622	55 622
Loan receivable	9 948	–	–	–	9 948
Weighted average interest rate	11.20%	4.41%	–	–	–
Financial liabilities					
Trade and other payables	–	–	–	61 930	61 930
Borrowings	–	21 568	–	–	21 568
Weighted average interest rate		10.55%	–	–	10 575
30 June 2018					
Financial assets					
Cash and cash equivalents	–	36 872	–	–	36 872
Trade and other receivables	–	–	–	41 904	41 904
Loan receivable	10 575	–	–	–	10 575
Weighted average interest rate	11.00%	8.82%	–	–	–
Financial liabilities					
Trade and other payables	–	–	–	26 094	26 094
Borrowings	–	32 976	–	–	32 976
Weighted average interest rate	–	11.10%	–	–	–

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

29. Financial instruments and risk management continued

COMPANY	Floating interest rate A$'000	Fixed interest maturing within one year A$'000	Non-interest bearing A$'000	Total A$'000
30 June 2019				
Financial assets				
Cash and cash equivalents	**1 457**	**–**	**–**	**1 457**
Weighted average interest rate	**0.01%**	**–**	**–**	**–**
Financial liabilities				
Trade and other payables	**–**	**–**	**53**	**53**
30 June 2018				
Financial assets				
Cash and cash equivalents	1 802	–	–	1 802
Weighted average interest rate	2.3%	–	–	–
Financial liabilities				
Trade and other payables	–	–	20	20
Weighted average interest rate	–	–	–	–

Credit risk

The carrying amount of the Group's financial assets represents its maximum exposure to credit risk.

The Group is exposed to credit risk on payments from customers and cash deposits. However, it does not consider that it has significant exposure because its major customers are Eskom Holdings SOC Limited and Glencore Plc. The Group also banks with reputable institutions in various locations, including HSBC Bank Australia Limited, ANZ Bank Australia, ABSA Bank Limited, Investec and FirstRand Bank. Eskom Holdings SOC Limited is a state owned company and is backed by the South African government. Both key customers continue to pay their outstanding balances on a monthly basis.

The Group is exposed to credit risk on payments from Ndalamo Resources on the loan receivable. However it does not consider that it has significant exposure as Ndalamo Resources pays their debt timeously, based on the loan agreement.

Financial assets exposed to credit risk at year end were as follows:

	Group		Company	
	2019	2018	2019	2018
	A$'000	A$'000	A$'000	A$'000
Financial assets				
Trade and other receivables	**55 622**	39 653	**–**	1 231
Cash and cash equivalents	**32 140**	36 872	**1 457**	1 802
Loans and receivables	**9 948**	10 575	**–**	–
Other financial assets	**4 094**	2 658	**–**	–

At 30 June 2019, the Group's most significant customers, Eskom Holdings SOC Limited, accounted for A$45 965 833 (2018: A$13 048 136) and Glencore Plc for A$68 147 (2018: A$15 127 244) of the trade and other receivables carrying amount.

	Group		Company	
	2019	2018	2019	2018
	A$'000	A$'000	A$'000	A$'000
Neither past due nor impaired	**16 413**	38 121	**–**	1 231
Past due 1 – 30 days	**29 490**	1 532	**–**	–
Past due 31 – 90 days	**9 719**	–	**–**	–
	55 622	39 653	**–**	1 231

Management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historical payment behaviour and extensive analysis of customer credit risk, including underlying customer's credit rating if they are available.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. Management monitors rolling forecasts of the Group's and Company's liquidity reserve. The review consists of considering the liquidity of local markets, projecting cash flows and the level of liquid assets to meet these. Management raises additional capital financing when the review indicates this to be necessary.

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

29. Risk management continued

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Total	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
GROUP	A$'000	A$'000	A$'000	A$'000	A$'000
30 June 2019					
Borrowings	**21 568**	**11 789**	**8 740**	**1 039**	**–**
Trade and other payables	**61 930**	**58 881**	**3 049**	**–**	**–**
30 June 2018					
Borrowings	25 430	12 736	3 559	6 254	2 881
Trade and other payables	42 671	42 671	–	–	–
COMPANY					
30 June 2019					
Trade and other payables	**109**	**109**	**–**	**–**	**–**
30 June 2018					
Trade and other payables	67	67	–	–	–

30. Earnings per share

	2019	2018
	A$'000	A$'000
Numerator		
Earnings used in basic earnings per share (A$)	**37 940 262**	23 977 893
Earnings used in diluted earnings per share (A$)	**37 940 262**	23 977 893
Denominator		
Weighted average number of shares used in basic earnings per share	**522 471 758**	522 471 758
Potential ordinary shares that could dilute earnings per share in future:		
Weighted average number of shares used in basic earnings per share	**522 471 758**	522 471 758

31. Employees and Directors

Average number of employees of the Group are as follows:

	Number	Number
Staff (operational resources)	233	160
Directors	6	8
	239	168

	A$'000	A$'000
Wages and salaries	16 234	9 404

Average number of employees of the Company are as follows:

	Number	Number
Staff (operational resources)	1	1
Directors	6	8
	7	9

	A$'000	A$'000
Wages and salaries	2 447	1 874

NOTES TO THE CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

31. Employees and Directors continued

There were no pension contributions paid by the Group in the current or prior year.

The key management personnel of the business are considered to be the Executive and Non-executive Directors of the Company, as well as senior management being the CFO, Director of corporate affairs, chief geologist and chief development engineer. Refer to section 9, Remuneration report of the Directors report.

	2019	2018
	A$'000	A$'000
Executive Directors	**1 458**	1 111
Senior management	**1 332**	1 078
Non-executive Directors	**720**	683
	3 510	2 872

The highest paid director is Tony Weber, CEO.

32. Events after the reporting period

On 28 August 2019, the Board of Directors declared a final gross cash dividend of A$0.01 (2018: A$0.01) per share in respect of the year ended 30 June 2019. The dividend is declared in Australian dollar and is subject to shareholder approval at the AGM for FY2019.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNIVERSAL COAL PLC

Opinion

We have audited the financial statements of Universal Coal Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 June 2019 which comprise the consolidated statement of profit or loss and other comprehensive income, the consolidated and company statement of financial position, the consolidated and company statement of cash flows and the consolidated and company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2019 and of the Group's profit for the year then ended
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- The Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006 and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Acquisition of North Block Complex (see note 4)

In November 2018, Universal Coal finalised the acquisition of the NBC operating colliery. The process to acquire the operation began in the previous financial year, however proof of fulfilment was not confirmed until this financial year. The business combination has been accounted for under the acquisition method. Under this method there are a number of considerations made around the recognition and measurement of assets and liabilities acquired. Specifically, the risk centres on the balance sheet valuation at takeover date, to ensure that all assets and liabilities have been recognised correctly at fair value on the acquisition finalisation date.

There were a number of fair value adjustments made within the Purchase Price Allocation (PPA), which involves the use of additional judgement. In order to assist with the valuations attributed to the assets and liabilities acquired as part of the fair value exercise, management engaged a number of independent external experts. There was also a $20.7m gain on bargain purchase recognised in the profit or loss as a result of this acquisition. Given the complexity of the transaction, the size of the assets and liabilities inherited and the significant level of management judgement involved in the application of fair value, we consider this to be a key audit matter.

How we addressed the matter in our audit

Our specific audit testing in this regard included:

- We obtained the sale and purchase agreement, ("SPA") confirming that conditions precedent for the acquisition had been met and subsequently the accounting applied from takeover date was appropriate
- We obtained Management's purchase price allocation and corresponding accounting treatment. We performed additional substantive procedures to verify the valuation of the balance sheet at takeover date, to ensure that the valuation techniques applied offered a best estimate of fair value in line with the requirements

INDEPENDENT AUDITOR'S REPORT continued

of IFRS 3. Specifically, we focused on the material balances, being PPE ($14.9m), mineral resource ($55.9m), environmental rehabilitation provision ($41.6m), coal stockpile inventory ($9.4m) and deferred tax liability ($8.0m). This included the review of independent expert assessments, a visit to the mine site to meet with operational management and consultations with internal valuations and tax specialists in order to ascertain that the approach taken and subsequent valuations determined were reasonable

- Verifying the treatment of the consideration paid, being the $1.6m (R17m) deposit and $7.3m (R76.3m) deferred element. We reviewed the SPA addendum which amended the payment date for the deferred elements, to ensure the timing for settlement of this liability was appropriately disclosed on the balance sheet. We have verified that a protection clause exists in the event of the non-transfer of this right and this has been adequately disclosed in the notes to the financial statements
- Ensuring that the gain on bargain purchase had been correctly accounted for through verification of the inherited assets and liabilities. We challenged management to understand the commercial basis for this gain and checked that the assets and liabilities acquired were complete

We noted no exceptions through performing these procedures. We found the judgements made by management to be appropriately considered and the disclosure in Note 4 to be sufficient.

Acquisition of Eloff (see note 4)

In July 2018 the Group finalised the takeover of Eloff Mining, which holds the land adjacent to Kangala that will facilitate the future expansion of the existing operation. The acquisition was deemed complex due to the step nature of obtaining control, having previously held a 29% interest which was acquired in July 2017. The acquisition comprised taking over a 51% share through the takeover of Manyeka Coal in July 2018 and final 20% acquired in September 2018. Upon the acquisition of the 51% in July 2018, the previous investment in associate was derecognised and the entity was consolidated in accordance with the accounting standards.

The acquisition has been accounted for as a purchase of assets at fair value given that Eloff is not yet considered a 'business' by definition under IFRS 3.

Given the size, complexity and unusual nature of the transaction, we consider this to be a key audit matter.

How we addressed the matter in our audit

Our specific audit testing in this regard included:

- Reviewed the sales and purchase agreement ("SPA") for the Manyeka Coal takeover, confirming that the conditions precedent for the acquisition had been met and subsequently the accounting applied from takeover date was appropriate.
- Consideration of the nature of the acquisition to determine whether Eloff constitutes a business by definition in accordance with the accounting standards. It was determined that Eloff was not yet considered a business and therefore was accounted for as an acquisition of assets. We have therefore reviewed the step-up accounting applied to ensure that it had been consolidated correctly from the date 'control' was obtained.
- Reviewed the sale-purchase agreement for the takeover of the remaining 20% shareholding from South32, ensuring that the conditions precedent for the acquisition had been met.
- We verified the consideration paid of $8.8m (R90m) for the 51% holding from Manyeka Coal and $3.6m (R37m) for the remaining 20% from South32. In addition, we ensured that the fair value applied to the underlying exploration asset remained a fair representation for the purposes of the acquisition accounting, with no change in the underlying reserves since the acquisition of the original 29% shareholding in 2017. In order to do this we verified the value of the asset on acquisition to the assessment made by the independent expert to ensure that the excess over the asset valuation was correctly allocated to exploration asset.

We noted no exceptions through performing these procedures. We found the judgements made by management to be appropriately considered.

Rehabilitation Provisions (see note 18)

As at 30 June 2019 the group has a rehabilitation provision of $74.7m (2018: $35.9m) on the balance sheet. The provision is split between the Kangala $4.5m (2018: $4.3m), NCC $26.0m (2018: $31.6m) and NBC $44.2m (2018: $Nil) mine sites. During the year management has undertaken a reassessment of the closure plans at both NCC and Kangala. In addition, management performed an assessment of the closure cost inherited at NBC as part of the acquisition of this colliery. This assessment includes a high level of judgement, use of external expertise and key estimates. Continued rehabilitation has also taken place at the mine sites which creates significant movements in the previous provisions recognised. Due to the size of the rehabilitation cost and level of judgement applied in estimating both the time and cost to rehabilitate we have therefore considered this to be a key audit matter.

How we addressed the matter in our audit

Our specific audit testing in this regard included:

- We visited the Kangala, NCC and NBC mine sites during the execution phase of the audit. We physically verified the areas that had been rehabilitated during the period at Kangala and NCC and the obligation inherited at NBC. We discussed the future plans for rehabilitation with operational management and verified these explanations back to the rehabilitation provision calculated by the finance team to ensure consistency
- Management engaged an external expert to update the rehabilitation plans for each site. We obtained a copy of these plans and undertook the following work:

- Agreed the basis of the plans back to our understanding of the mine sites gained from our site visit.
- Held discussions with the expert to understand the methodologies applied, cost unit rates applied and adherence to South African regulation
- Obtained independence confirmations from external expert and assessed technical capability to undertake the work scoped
- Verified unit costs applied in the closure plan back to rehabilitation costs incurred in the period to ensure these were at market rates
- Obtained both historic and current survey reports to support the cubic metres of earthwork to be moved as part of the rehabilitation plans
- Verified other key estimates such as inflation and discount rates back to empirical market data
- Verified the underlying mechanics of the rehabilitation provisions to ensure that movements related to work performed, unwinding of discount and change in underlying estimates have been accounted for in the appropriate financial statement area

We noted no exceptions through performing these procedures. We found the judgements made by management to be appropriately considered.

Our application of materiality

	Materiality	$ Basis for materiality
FY 2019	$3.6m	5% of Profit before tax (less bargain purchase gain)
FY 2018	$3.0m	6.5% of Profit before tax

We consider profit before tax to be the financial metric of the most interest to shareholders and other users of the financial statements, given the Group now has three mines operating with consistent production. The Group has established a dividend policy and therefore we consider a profit based measure to be an appropriate basis for materiality. We have now reduced the threshold to 5%, having previously used a 6.5% threshold as the Group has transitioned into operating three mines and maintaining a consistent dividend policy.

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Performance materiality was set at 75% (2018: 75%) of the above materiality levels. We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of $180,000 (2018: $150,000).

Whilst materiality for the financial statements as a whole was $3.6 million, each significant component of the group was audited to a lower level of materiality ranging from $0.8m to $2.2m (2018: $0.7m to $2.5m), which is used to determine the financial statement areas that are included within the scope of our audit and the extent of sample sizes used during the audit.

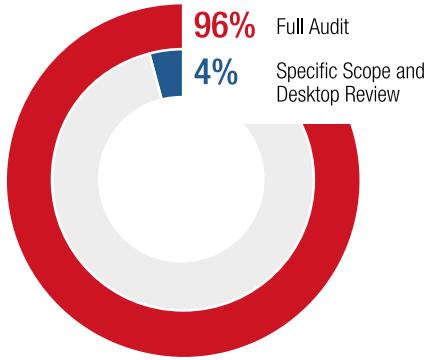
There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material in terms of their absolute monetary value or on qualitative grounds.

An overview of the scope of our audit

Our group audit scope focused on the Group's principal operating locations being the Kangala mine held in UCD I, NCC mine held across UCD IV and UCD VIII and NBC, the mine newly acquired in the year, all of which were subject to a full scope audit. Together with the parent company and its Group consolidation, which was also subject to a full scope audit, these represent the significant components of the Group.

The remaining components of the Group were considered non-significant and these components were principally subject to analytical review procedures, together with additional substantive testing over the risk areas detailed above where applicable to that component. We set out below the extent to which the group's total profit before tax was subject to audit versus review procedures:

Scope of our audit



The audits of each of the components were principally performed in South Africa (Pretoria) and the United Kingdom. All of the audits were conducted by BDO LLP and BDO member firms.

As part of our audit strategy, the Responsible Individual and senior members of the audit team visited each of the principal operating locations in the year.

INDEPENDENT AUDITOR'S REPORT continued

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Consolidated Annual Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, 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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and
- The strategic report and the Directors' report have been prepared in accordance with applicable legal requirements

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us or
- The Parent Company financial statements are not in agreement with the accounting records and returns or
- Certain disclosures of Directors' remuneration specified by law are not made or
- We have not received all the information and explanations we require for our audit

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 50, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability 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 the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

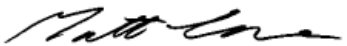
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) 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 these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Matt Crane (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
27 September 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

SECTION 6:

ADMINISTRATION

Conducting business practices

IN THE MOST ETHICAL MANNER

ASX ADDITIONAL INFORMATION

Shareholdings

The issued capital of the Company as at 18 September 2019 is 522 471 758 ordinary fully paid shares/CDIs. As at 18 September 2019, there were no other securities on issue.

Ordinary shares/CDIs at 18 September 2019

Range	Total holders	Number of shares	% of issued capital
1 – 1 000	107	31 578	0.01
1 001 – 5 000	268	785 428	0.15
5 001 – 10 000	237	1 964 838	0.38
10 001 – 100 000	646	24 049 219	4.60
100 001 and over	207	495 640 695	94.86
Rounding		0.00	
Total	**1 465**	**522 471 758**	**100.00**

Unmarketable parcels

As at 18 September 2019, the total number of shares on issue was 522 471 758. There were 163 shareholders (with a total of 113 936 shares) holding less than a marketable parcel of shares under the ASX listing rules. The ASX listing rules define a marketable parcel of shares as “a parcel of not less than AU$500”.

Top 20 shareholders as at 18 September 2019

	Number of shares	% of issued capital
Coal Developments Holdings B.V.	143 467 056	27.46
HSBC Custody Nominees (Australia) Limited-GSCO ECA	50 971 643	9.76
HSBC Custody Nominees (Australia) Limited – A/C 2	50 382 072	9.64
National Nominees Limited	45 411 938	8.69
UK Register Control A/C	31 483 320	6.03
Citicorp Nominees (Pty) Limited	22 782 820	4.36
BNP Paribas Nominees (Pty) Limited <IB AU Noms Retail Client DRP>	9 763 227	1.87
JP Morgan Nominees Australia (Pty) Limited	7 855 110	1.50
Mr Geoffrey Robert Tarrant and Mrs Deborah Lee Tarrant	7 080 000	1.36
Geoff Tarrant	6 073 262	1.16
Mr Anton Weber	4 781 226	0.92
Mr Craig Graeme Chapman <Nampac Discretionary A/C>	4 000 000	0.77
Lambro Holdings (Pty) Limited <Stewart S/F A/C>	4 000 000	0.77
Pheasant Dime Investments Limited	3 850 000	0.74
BNP Paribas Noms (Pty) Limited <DRP>	3 819 039	0.73
One Managed Invt Funds Limited <Sandon Capital Inv Limited A/C>	3 561 649	0.68
HSBC Custody Nominees (Australia) Limited	3 094 442	0.59
Briar Place (Pty) Limited <MJ Family A/C>	3 038 252	0.58
Ponderosa Investments (WA) (Pty) Limited <Ponderosa Investment A/C>	3 037 008	0.58
Mr Darren Hile	2 887 952	0.55
Total	**411 340 016**	**78.73**
Balance of register	**111 131 742**	**21.27**
Grand total	**522 471 758**	**100**

Voluntary escrow

There are no Universal Coal securities under voluntary escrow.

Substantial holders

Universal Coal has been notified of the following substantial holder of its securities via a substantial shareholding notice released to the ASX:

- CDH 141 921 603 CDIs (As per notification to the ASX via a substantial shareholder notice, 9 March 2015)
- Brasidas Investment Management LLC and other related parties 103 095 870 CDSs (as per notification to the ASX via a substantial shareholder notice, 3 May 2019)

The Company is aware that CDH now holds 143 467 056 CDIs which is 27.46% of the issued capital of the Company.

Securities purchased on-market

There were no securities purchased on-market during the year.

On-market buy back

There is no current on-market buy back.

Stock exchange listing

Universal Coal CDIs are only listed on the ASX.

Voting rights

Each CDI issued by Universal Coal represents one fully paid ordinary share. Each ordinary fully paid share and CDI carries one vote per share/CDI without restriction. There are no other classes of equity securities.

GLOSSARY OF TERMS AND ACRONYMS

A$	Australian dollar
AGM	Annual General Meeting
AIM	Alternative Investment Market
AP14	The price assessment is the benchmark price reference for coal exported from South Africa's Richards Bay terminal
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BBBEE	Broad-based Black Economic Empowerment
bcm/t	Bank cubic metres per tonne
BEE	Black Economic Empowerment
CAGR	Compound annual growth rate
CDH	Coal Development Holdings B.V.
CDI	CHESS Depository Interest
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash generating unit
CHEFF	Capital Harvest Emerging Farmer Finance (Pty) Limited
CHPP	Coal Handling and Processing Plant
CSA	Coal Supply Agreement
CSI	Corporate social investment
CTC	Colliery Training College
DMR	Department of Mineral Resources
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECL	Expected Credit Losses
ECSA	Engineering Council of South Africa
Eloff Project	Eloff Mining Company (Pty) Limited
EMP	Environmental Management Plan
EMPr	Environmental Management Programme
ESG	Environmental, social and governance
GTIS	Gross tonnes *in situ*
HDSA	Historical disadvantaged South African
HSE	Health, Safety and Environment
IFRS	International Financial Reporting Standards
Investec	Investec Bank Limited
ISO	International Standards Organisation
IWUL	Integrated water use license
JORC Code	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
JSE	Johannesburg Stock Exchange
LoM	Life-of-mine
LTI	Lost time injury
LTIFR	Lost time injury frequency rate
Manyeka	Manyeka Coal Mines (Pty) Limited
MC	Metallurgical coal
MHSA	Mine Health and Safety Act
MPRDA	Mineral and Petroleum Resources Development Act
MR	Mining Right
MSHA	Mine Safety and Health Administration
Mt	Million tonnes
MTIS	Mineable tonnes *in situ*
Mtpa	Million tonnes per year
NBC	North Block Complex
NCC	New Clydesdale Colliery
NCI	Non-controlling interest
Ndalamo	Ndalamo Resources (Pty) Limited
NEMA	National Environmental Management Act
NEMAQA	National Environmental Management: Air Quality Act
NIHL	Noise induced hearing loss
NPAT	Net profit after tax
O/C	Open-cut
OAM	Order of Australia
OHSAS	Occupational Health and Safety Management Systems
PCP	Previous corresponding period
PES	Present ecological status
PM10	Particulate matter with a mass median diameter of less than 10 micrograms
PR	Prospecting Right
RE	Remaining extent
R	South African rand
ROM	Run-of-mine
ROMt	Run-of-mine tonne
SACNASP	South African Council for Natural Scientific Professions
SAIMM	South African Institute of Mining and Metallurgy
SAMREC	South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves, 2007 edition amended July 2009
SANAS	South African National Accreditation System
SANS	South African National Standards
SASS5	South African Scoring System Version 5
SED	Socio-economic development
SLP	Social and Labour Plan
SMME	Small, medium and micro-sized enterprises
TB	Tuberculosis
TC	Thermal coal
TVET	Technical and vocational education and training
U/G	Underground
UCDI	Universal Coal Development I (Pty) Limited (Kangala Colliery)
UCDII	Universal Coal Development II (Pty) Limited (Berenice Project)
UCDIII	Universal Coal Development III (Pty) Limited (Ubuntu Colliery)
UCDIV	Universal Coal Development IV (Pty) Limited (NCC)
UCDV	Universal Coal Development V (Pty) Limited (Cygnus Project)
UCDVI	Universal Coal Development VI (Pty) Limited
UCDVII	Universal Coal Development VII (Pty) Limited (SPV for additional coal projects)
UCEHSA	Universal Coal Energy Holdings South Africa (Pty) Limited
VCT	Voluntary Counselling and Testing
VFL	Visible Felt Leadership

CORPORATE DIRECTORY

Directors

John Hopkins OAM	*Non-executive Chairman*
Henri Bonsma	*Non-executive Director*
Tony Weber	*Executive Director and CEO*
Shammy Luvhengo	*Executive Director*
David Twist	*Non-executive Director*
Carlo Baravalle	*Non-executive Director*
Nonkululeko Nyembezi	Non-executive Director *(Resigned 3 May 2019)*
Andries Engelbrecht	Non-executive Director *(Resigned 3 May 2019)*

Company secretary

Benjamin Harber (United Kingdom) of Shakespeare Martineau LLP

ASX Liaison and local agent

Anna Sandham (Australia) of Company Matters (Pty) Limited

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Australian Securities Exchange
Share code: UNV

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Company registration number

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