Merafe Resources Limited

Significant accounting policies

for the year ended 31 December 2018

1. Accounting policies

1.1 Reporting entity

Merafe Resources Limited (company) is domiciled in the Republic of South Africa. The address of the company's registered office is Building B, Second Floor, Ballyoaks Office Park, 35 Ballyclare Drive, Bryanston, 2191. The consolidated financial statements as at and for the year ended 31 December 2018 comprise the company and its subsidiaries (together referred to as the group and individually as group entities). The group is primarily involved in the mining and beneficiation of chrome ore into ferrochrome. Where reference is made to "group", this should be interpreted as "consolidated". Further, where reference is made to the "group" and "consolidated" in the accounting policies, it should be interpreted as also referring to the "company" where the context requires, unless otherwise indicated.

1.2 Basis of preparation

1.2.1 Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRSs), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Pronouncements as issued by Financial Reporting Standards Council, the JSE Listing Requirements and the requirements of the Companies Act of South Africa. The consolidated and separate financial statements were authorised for issue by the board on 8 March 2019.

1.2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position which are measured at their fair values:

- Derivative financial instruments (refer to note 1.18.2); and
- Cash-settled share-based payments (refer to 1.10.3).

1.2.3 Functional and presentation currency

The consolidated and separate financial statements are presented in South African Rand, which is the company's functional currency.

All financial information presented in South African Rand has been rounded to the nearest thousand, unless otherwise indicated.

1.2.4 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the consolidated and separate financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

1. Accounting policies *(continued)*

1.2 Basis of preparation *(continued)*

1.2.4 Critical accounting judgements and key sources of estimation uncertainty *(continued)*

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Note 1.5.3, 1.20.2 and 2.1: Measurement of depreciation and impairment, useful lives and residual values of property, plant and equipment;
Note 1.10.3 and 9: Inputs used in the determination of the fair value of the share-based payment transactions;
Note 1.5.3.5, 2 and 10.1: Lease classification between operating and finance lease and depreciation of finance lease assets;
Note 1.8 and 11: Assumptions used in calculation of the life of the mines/smelters, estimation of the closure and restoration costs and inputs used in the calculation of the present value of the provision for closure and restoration costs;
Note 1.14 and 12: Recognition of deferred tax asset and projection of future taxable income to recover the deferred tax asset;
Note 1.3: Consolidation: control assessment; and
Note 1.18.2: Fair value measurement of embedded derivative.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated and separate financial statements and have been applied consistently by group entities.

1.2.5 Standards and interpretations issued and not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019 and have not been applied in preparing these consolidated and separate financial statements. The standards which may be relevant to the group are set out below. The group does not plan to adopt these standards early. These standards will be adopted in the period that they become effective.

1. Accounting policies *(continued)*

1.2 Basis of preparation *(continued)*

1.2.5 Standards and interpretations issued and not yet effective *(continued)*

IFRS 16 *Leases*

IFRS 16 was published in January 2017. It 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'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. The transitional requirements of IFRS 16's standards and interpretations issued are not yet effective for the lessees and lessors. Based on the initial review by management of the terms and conditions of the various operating leases, IFRS 16 is not expected to have a material impact on the group. These operating leases are not material to the group.

IFRS 17 *Insurance contracts*

IFRS 17 requires insurance liabilities to be measured at the current fulfilment value and provides more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance contracts as of 1 January 2021. The amendment was issued on 18 May 2018 and is applicable for annual reporting periods beginning on or after January 2021.

The requirement is not expected to have a material impact on the group.

IAS 28 *Investments in associates and joint ventures*

Amendments regarding long-term interests in associates and joint ventures.

Paragraph 14A has been added to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

Paragraph 41 has been deleted because the IASB felt that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests. Change is effective for annual periods beginning on or after 1 January 2019.

1. Accounting policies *(continued)*

1.2 Basis of preparation *(continued)*

1.2.5 Standards and interpretations issued and not yet effective *(continued)*

IFRIC 23*: Uncertainty over Income Tax Treatments*

The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 Income taxes.

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Annual Improvements to IFRS Standards 2015-2017 Cycle

The IASB has issued 'Annual Improvements to IFRS Standards 2015–2017 Cycle'. The pronouncement contains amendments to four International Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project. These amendments are effective for annual periods beginning on or after 1 January 2019. The amendments made during the 2015–2017 cycle are below.

The amendments clarify that:

IFRS 3 Business Combinations
A company remeasures its previously held interest in a joint operation when it obtains control of the business.

IFRS 11 Joint Arrangements
A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 Income Taxes

A company accounts for all income tax consequences of dividend payments in the same way.

IAS 23 Borrowing Costs
A company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

1. Accounting policies *(continued)*

1.2 Basis of preparation *(continued)*

1.2.5 Standards and interpretations issued and not yet effective *(continued)*

Amendments to IAS 19: Employee benefits (Plan Amendment, Curtailment or Settlement)

On 7 February 2018, the IASB published Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) to harmonise accounting practices and to provide more relevant information for decision-making. An entity applies the amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019.

Amendments to IFRS 9: Financial Instruments (Prepayment features)

On 12 October 2017, the IASB published Prepayment Features with Negative Compensation (Amendments to IFRS 9) to address the concerns about how IFRS 9 Financial Instruments classifies particular pre-payable financial assets. In addition, the IASB clarified an aspect of the accounting for financial liabilities following a modification.

These amendments are:

Changes regarding symmetric prepayment options: Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant, i. e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

Clarification regarding the modification of financial liabilities: It clarifies that an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. A retrospective change of the accounting treatment may therefore become necessary if in the past the effective interest rate was adjusted and not the amortised cost amount.

The amendments are to be applied retrospectively for financial years beginning on or after 1 January 2019.

The requirement is not expected to have a material impact to the group.

1. Accounting policies *(continued)*

1.3. Basis of consolidation

1.3.1 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. The results of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

1.3.2 Transactions with the Venture

Glencore Operations South Africa (Pty) Ltd (Glencore) and Merafe Ferrochrome pooled and shared their ferrochrome assets on 1 July 2004 to form the Venture. The Venture's primary business is the production and sale of ferrochrome to the stainless steel industry. The Venture is the only operating asset of the group and is strategic to the group's activities. While Merafe Ferrochrome's assets form part of the Venture, Merafe Ferrochrome retains ownership of its assets and is closely involved in the Venture's operations through the Venture's Executive Committee, Joint board and sub-Committees. Merafe Ferrochrome receives 20.5% of the Venture's earnings before interest, taxation, depreciation and amortisation (EBITDA) and owns 20.5% of the working capital.

In management's view, the Venture is a joint arrangement as defined in IFRS 11 as Merafe Ferrochrome and Glencore are bound by a contractual arrangement which constitutes joint control. The following significant judgements and assumptions were relevant in the joint control assessment:

a) The ultimate operational decision making responsibility in the Venture resides with the Joint board. The Chairman of the board, who is appointed by Glencore, has a casting vote at the Joint board level on all decisions except for decisions relating to reserved matters. The reserved matters include, inter-alia, the managing of input costs relating to chrome production, operation of the various chrome producing assets, disposal of assets forming part of the pooled operations, increasing the operational capacity of chrome producing assets and acquiring or constructing new chrome producing assets. These reserved matters, in management's view, are likely to have the most significant impact on returns of the Venture and therefore would constitute its "relevant activities" as defined in IFRS 10. Contractually, decisions over the reserved matters require the unanimous consent of Merafe Ferrochrome and Glencore as those decisions cannot be made unilaterally.

b) There is a significant disparity in holdings between Merafe Ferrochrome's interest in the Venture at 20.5% and Glencore's interest in the Venture at 79.5%. However, this does not influence the joint control conclusion as the benefits each party stands to gain from the arrangement was the determining factor in the joint control arrangement rather than other forms of arrangements. Furthermore, any dispute relating to the interpretation of the Pooling and Sharing Agreement (the Venture agreement) is to be settled by an arbitrator appointed by the Arbitration Foundation of South Africa (AFSA) and in management's view the AFSA provides for a neutral dispute resolution process and would not favour either Glencore or Merafe Ferrochrome.

1. Accounting policies *(continued)*

1.3. Basis of consolidation *(continued)*

1.3.2 Transactions with the Venture *(continued)*

c) The lack of legal form of the Venture results in Merafe Ferrochrome and Glencore having rights to the assets and obligations for the liabilities held in the Venture. This lack of legal separation between the Venture, Glencore and Merafe Ferrochrome is further supported by the fact that the South African Revenue Services assesses the Venture and directly taxes Merafe Ferrochrome and Glencore respectively for the income generated from the Venture.

d) In terms of the Venture agreement, Merafe Ferrochrome and Glencore maintain legal ownership of their respective assets contributed to the Venture and upon winding up of the Venture. Glencore and Merafe Ferrochrome will also receive a portion of any new assets acquired by the parties post 1 July 2004 and to the extent that an asset relates to their existing assets, be required to acquire the other party's portion at fair value which indicates that the parties have rights to the assets of the Venture. The lack of legal form of the Venture results in Glencore and Merafe Ferrochrome having rights to the assets and obligations for the liabilities held in the Venture and consequently joint operations classification in terms of IFRS 11.

Accounting for joint operations results in Merafe Ferrochrome recognising its assets that were contributed to the Venture and its portion of the assets held jointly in the Venture. Similarly Merafe Ferrochrome recognises its liabilities, including its share of any liabilities incurred jointly. Merafe Ferrochrome recognises its revenue and share of the revenue from the Venture as well as its expenses and share of expenses relating to the Venture. The accounting that was adopted by Merafe since the formation of the Venture is consistent with the accounting for joint operations as required by IFRS 11.

Refer to Related Parties note 23.4 for the items that represent the group's share of the working capital and EBITDA of the Venture.

1.3.3 Structured entities

The group has established structured entities (SEs). The related parties Note 23 includes the identity and relationship of the SEs to the group. The group does not have any direct or indirect shareholding in these entities. A SE is consolidated if, based on an evaluation of the substance of its relationship with the group and the SE's risks and rewards, the group concludes that it controls the SE. SEs controlled by the group were established under terms that impose strict limitations on the decision making powers of the SE's management and that result in the group receiving the majority of the benefits related to the SE's activities, and retaining the majority of the residual or ownership risks related to the SEs or their assets.

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

1. Accounting policies *(continued)*

1.4 Foreign currency

Transactions in foreign currencies are translated to the functional currency of the group entities at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to South African Rand (Rand) at the foreign exchange rate ruling at that date. The foreign exchange gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated to Rand at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss in the period in which they arise. Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rate at the date of the transaction.

1.5 Property, plant and equipment

1.5.1 Recognition and measurement

1.5.1.1 Mining assets including mine development costs

Mining assets, including mine development costs and mine plant facilities, are stated at cost less accumulated depreciation and accumulated impairment. Costs include pre-production expenditure incurred in the development of the mine and the present value of future decommissioning costs. Development costs incurred to develop new ore bodies, to define mineralisation in existing ore bodies and to establish or expand productive capacity are capitalised. Mine development costs in the ordinary course of maintaining production are expensed as incurred. Initial development and pre-production costs relating to a new ore body are capitalised until the ore body achieves commercial levels of production, at which time the asset is deemed to be available for use and is amortised as set out below.

1.5.1.2 Mineral and surface rights

Mineral and surface rights are stated at cost less accumulated amortisation and accumulated impairment losses. When there is little likelihood of a mineral right being exploited, or the value of mineral rights has diminished below cost, an impairment loss is recognised in profit or loss in the period that such determination is made.

1.5.1.3 Land, non-mining assets and corporate assets

Land is stated at cost and is not depreciated. Buildings and other non-mining property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of self constructed assets includes the cost of materials, direct labour, the initial estimate (where relevant) of the costs of dismantling and removing the items, restoring the site on which they are located and any other costs directly attributable to bringing the assets to a working condition for their intended use.

1. Accounting policies *(continued)*

1.5 Property, plant and equipment *(continued)*

1.5.1 Recognition and measurement *(continued)*

1.5.1.3 Land, non-mining assets and corporate assets (continued)

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

1.5.1.4 Exploration and evaluation expenditure

Exploration and evaluation expenditure relates to costs incurred during the exploration and evaluation of potential mineral reserves and resources and includes costs such as exploratory drilling and sample testing and the costs of pre-feasibility studies. Exploration and evaluation expenditure for each area of interest, other than acquired from the purchase of another mining company, is recognised as an asset provided that one of the following conditions are met:

- 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
- Exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future. Purchased exploration and evaluation assets are recognised as assets at fair value if purchased as part of a business combination.

An impairment review is performed, either individually or at the cash-generating unit level, when there are indications that the carrying amounts of the assets may exceed their recoverable amounts. To the extent that this occurs, an impairment loss is recognised in the financial year in which this is determined. Exploration and evaluation assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions outlined above is met. Expenditure is transferred to mine development assets or capital work in progress once the work completed to date supports the future development of the property and such development received appropriate approvals.

1.5.2 Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will Recognition and measurement flow to the group and its cost can be measured reliably. The carrying amount of the part replaced is derecognised. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

1. Accounting policies *(continued)*

1.5 Property, plant and equipment *(continued)*

1.5.3 Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value.

Depreciation methods, estimated useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate. Useful lives are assessed using internal experts. Residual values are assessed using market information on similar sales transactions.

1.5.3.1 Mineral and surface rights

Mineral rights that are being depleted are amortised over their estimated useful lives using the units of production method, based on proven and probable ore reserves. Mineral rights that are not being depleted are not amortised. Mineral rights that have no commercial value are impaired in full.

1.5.3.2 Mining assets including mine development costs

Mining equipment, structures and plant and equipment are amortised using the straight-line method over the estimated useful life. The useful life ranges between one and thirty years, depending on the nature of the asset.

1.5.3.3 Capital work in progress

Capital work in progress is not depreciated. The net carrying amounts of capital work in progress at each mine property are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that these values exceed their recoverable amounts, an impairment loss is recognised in the financial year in which this is determined.

1.5.3.4 Land, non-mining assets and corporate assets

Non-mining equipment, structures and plant and equipment are depreciated using the straight-line method over the estimated useful life. The useful life ranges between one and thirty years depending upon the nature of the asset. Land is not depreciated.

1.5.3.5 Leased assets

Leases in terms of which the group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are accounted for as described in accounting policy Note 1.12. Leased assets are depreciated over the shorter of the lease term and their useful lives. The useful life of leased assets is on average twenty years.

Other leases are operating leases and are not capitalised.

1. Accounting policies *(continued)*

1.5 Property, plant and equipment *(continued)*

1.5.4 Derecognition

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected to flow to the group from their use. Gains or losses on derecognition of an item of property, plant and equipment are determined by the comparing of the proceeds from disposal, if applicable, with the carrying amount of the item and are recognised directly in profit or loss.

1.6 Financial instruments

1.6.1 Non-derivative financial assets

The group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the group becomes a party to the contractual provisions of the instrument.

The group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. On derecognition, the variance that arises between the carrying value of the financial asset and its proceeds, is recognised in profit and loss. Any interest in such transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, the group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The group classifies non-derivative financial assets into the following categories:

Loans and receivables
Loans and receivables are financial assets with fixed or determined payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of trade and other receivables and intercompany loans.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the group in the management of its short-term commitments.

1. Accounting policies *(continued)*

1.6 Financial instruments *(continued)*

1.6.2 Non-derivative financial liabilities

The group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date the group becomes a party to the contractual provisions of the instrument.

The group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. On derecognition, the variance that arises between the carrying value of the financial liability and its proceeds, is recognised in profit and loss.

The group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts and trade and other payables.

1.6.3 Derivative financial instruments

Embedded derivatives are separated from the host contract and accounted for separately if:
- the economic characteristics and risk of the host contract and the embedded derivative are not closely related;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; any attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted as described below.

Separable embedded derivatives
Changes in the fair value of separated embedded derivatives are recognised immediately in profit or loss.

1.7 Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

1. Accounting policies *(continued)*

1.8 Provisions

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event, an amount that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised in profit or loss.

Provision for closure and restoration costs
Long-term environmental obligations are based on the group's environmental management plan, in compliance with current environmental and regulatory requirements.

A full provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the reporting date. The related costs are capitalised to mining assets and are amortised over the useful lives of the related assets. Annual movements in the provision relating to the change in the net present value of the provision due to changes in estimated cash flows or discount rates are adjusted against the costs capitalised to mining assets. Ongoing rehabilitation costs are expensed in profit or loss.

Annual movements in the provision relating to passage of time, i.e. unwinding of discount, are expensed as incurred.

Cost estimates are not reduced by the potential proceeds from the sale of assets or from plant clean-up at closure.

Guarantees have been provided by the Venture to the Department of Mineral Resources in respect of the liability for closure and restoration costs. These guarantees are in the name of Glencore and relate to the Venture, and are disclosed in note 21.2. The guarantees are not recognised as liabilities in the financial statements.

Provision for uncertain tax positions
In determining the amount of current and deferred tax, the group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

1.9 Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

1. Accounting policies *(continued)*

1.9 Inventories *(continued)*

Cost is determined on the following basis:

- Finished goods on hand are valued using the weighted average cost. Cost includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost includes an appropriate share of production overheads based on normal operating capacity and directly attributable administration costs.
- Consumable stores and raw materials are valued at weighted average cost and include expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

1.10 Employee benefits

1.10.1 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans and accumulated leave if the group has a present legal or constructive obligation to pay as a result of past services provided by the employee and the obligation can be estimated reliably.

1.10.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payment is available.

Defined contribution plans are funded through monthly contributions to the provident fund, which is governed by the Pension Fund Act of 1956. All employees of the group belong to the provident fund. The group's liability is limited to its annually determined contributions.

The group and company provide medical cover to current employees through various funds. The medical plans are funded through monthly contributions to the medical aid fund. The group's and company's liability is limited to its annually determined contributions.

1.10.3 Share-based payment transactions

The share incentive scheme allows qualifying directors and employees to be granted share grants. Share grants may be granted to all employees of the company and any of its subsidiaries at the discretion of the directors, subject to the limitations imposed by the share grant scheme. The fair value of share grants are measured at grant date and spread over the period during which the employees become unconditionally entitled to the share grants. The fair value of the share grants are measured using the Black-Scholes-Merton model, taking into account the terms and conditions upon which the share grants were granted.

1. Accounting policies *(continued)*

1.10 Employee benefits *(continued)*

1.10.3 Share-based payment transactions *(continued)*

Share-based payment arrangements in which the group received goods or services as consideration of its own equity instruments were accounted for as equity-settled share-based payment transactions up until 29 June 2015. On 30 June 2015, the company changed its intention with regard to the settlement of all share-based payment transactions from equity to cash.

The fair value of the amount payable to employees in respect of cash settled share-based payment arrangements is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at fair value at each reporting date and at settlement date. Any changes in the fair value of the liability is recognised in profit or loss.

1.11 Revenue

1.11.1 Sale of goods

Revenue comprises sales of ferrochrome and chrome ore at invoiced value, net of value added tax, trade discounts and intra-group sales. Revenue is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Revenue is recognised when the following five-step model framework conditions are met:
(a) The group has identified the contract with the customer;
(b) The group has identified all performance obligations associated with the contract;
(c) The transaction price can be reliably determined;
(d) The transaction price of the contract can be allocated to the performance obligations; and
(e) The group will recognise revenue when it is able to satisfy the performance obligations.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Determining whether the group is acting as an agent or principal is based on an evaluation of the risks and responsibilities taken by the group, including inventory risk and responsibility for the delivery of goods or services.

Ferrochrome and chrome ore marketing arrangement with Glencore International AG
Glencore is acting as agent and the group is acting as principal for ferrochrome and chrome ore sales.

Distribution arrangements with Glencore Limited, Glencore Canada Inc and Mitsui and Co Europe Plc (the distribution agents)

The group is acting as principal for the ferrochrome sales to the distribution agents as the risks and rewards of ownership pass from the group to the distribution agents.

The distribution agents are acting as principal for subsequent sales to stainless steel customers.

1. Accounting policies *(continued)*

1.11 Revenue *(continued)*

1.11.1 Sale of goods *(continued)*

The agreements contain a price adjustment feature whereby the ferrochrome is provisionally invoiced to the distribution agents at a price that is linked to the ruling benchmark price when the risks and rewards pass to the distribution agents. The agreements provide for the final price to be determined based on the price the distributing agent receives for the ferrochrome via the ultimate sale to the stainless steel customer.

The price adjustment feature is recognised as an embedded derivative as it is a component of a hybrid contract that also includes a non-derivative sales host contract with the effect that some of the cash flows of the combined contract vary in a way similar to a stand-alone derivative. The embedded derivative causes the cash flows that would be required by the contract to be modified according to the ferrochrome price.

The embedded derivative is recognised at fair value in "trade and other receivables" and is included in the statement of financial position.

1.11.2 Management fees

Revenue from management fees is recognised at the fair value of the consideration received or receivable. Revenue is recognised in the accounting periods in which the services are rendered.

Management fees recognised in the company relate to a recovery of costs from the subsidiary, Merafe Ferrochrome, and are recognised when the costs are recovered net of value added taxation.

Management fees recognised in Merafe Ferrochrome relate to employee services rendered to the Venture and are recognised when the services are rendered net of value added taxation.

1.11.3 Dividends

Dividends received by the company are recognised at the fair value of the consideration received or receivable.

1.12 Leases

1.12.1 Operating lease payments

Operating leases comprise of leases which do not transfer substantially all of the risks and rewards incidental to ownership of the leased asset. Rentals payable under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease assets are consumed.

1. Accounting policies *(continued)*

1.12 Leases *(continued)*

1.12.2 Finance lease payments

Finance leases comprise leases which transfer substantially all of the risks and rewards incidental to ownership of the leased asset to the lessee. Minimum finance lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a consistent periodic rate of interest in the remaining balance of the liability.

1.13 Finance income and expenses

1.13.1 Finance income

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

1.13.2 Finance expenses

Finance expenses comprise interest expense on borrowings, interest on tax related items, unwinding of the discount on the rehabilitation provision. Finance expenses for the company include the fair value adjustment on the intercompany loan as per note 3 and note 17.

Borrowing costs directly related to the financing of a qualifying capital project under construction are capitalised to the project cost during construction, until such time as the related asset is substantially ready for its intended use, i.e. when it is capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available in the short term from money borrowed specifically to finance a project, the income generated from such short-term investments is also capitalised and deducted from the total capitalised borrowing costs. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average rate applicable to the relevant general borrowings of the group during the period.

1.14 Income Tax

Tax expense comprises current tax and deferred tax. Tax expenses are recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The current tax rate is 28%.

Deferred tax is not recognised for the following temporary differences:
- The initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and
- Differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

1. Accounting policies *(continued)*

1.14 Income Tax *(continued)*

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authorities on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets, including deferred tax assets relating to the carry forward of unutilised tax losses and/or unutilised capital allowances are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Dividend withholding tax
Dividend withholding tax is payable at a rate of 20% on dividends paid to shareholders. This tax is not attributable to the company paying the dividend but is collected by the company and paid to the South African Revenue Services on behalf of the shareholder.

Tax exposures
In determining the amount of current and deferred tax, the group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the company to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

1.15 Segment reporting

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses. The group has one reportable segment being the mining and beneficiation of chrome ore into ferrochrome. Internal management accounts are prepared monthly on the basis of one reportable segment which is reviewed monthly by the Financial Director and Chief Executive Officer (Chief Operating Decision Maker).

Ferrochrome and chrome ore are the products produced by the Venture. Most of the products produced are used in the manufacturing of stainless steel. Refer to Note 15 for geographical areas of ferrochrome and chrome ore sales and information on customers that individually comprise more than 10% of total ferrochrome and chrome ore sales.

1. Accounting policies *(continued)*

1.16 Earnings per share

The group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options and share grants granted to employees and a future equity-settled share-based payment set out in Note 19.4. Headline EPS is calculated by adjusting the earnings attributable to the ordinary shareholders of Merafe Resources for all separately identifiable remeasurements as per SAICA circular 2/2015. The result is then divided by the weighted average number of ordinary shares in issue/outstanding during the period. Diluted headline EPS is calculated by dividing headline earnings by the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares which comprise grants granted to employees and future cash-settled share-based payments set out in note 19.5.

1.17 Dividend distributions

Dividend distributions to the company's shareholders are recognised as a liability in the consolidated and separate financial statements in the period in which the dividends are approved by the board of directors. Dividends declared after the reporting period are disclosed in the notes to the financial statements and are not recognised in the current financial statements. The cash flows for dividends are included in financing activities. Dividend witholding tax is levied on dividend recipients and has no impact on the group taxation charge as reflected in the statement of comprehensive income.

1.18 Determination of fair values

A number of the group accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods as indicated below. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. The carrying values of financial assets and liabilities as reflected in the statement of financial position are a reasonable approximation of their fair values, unless otherwise stated in the respective note. To maintain consistency and comparability in fair value measurements and related disclosures, a fair value hierarchy that categorises the inputs to the valuation techniques used to measure fair value is categorised into three levels. Level one inputs are defined as inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the group can access at the measurement date. Level two inputs are inputs other than quoted prices included within Level one that are observable for the asset or liability, either directly or indirectly. Lastly, level three inputs are unobservable inputs for the asset or liability.

1.18.1 *Net trade receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

1. Accounting policies *(continued)*

1.18 Determination of fair values *(continued)*

1.18.2 *Embedded derivatives*

The embedded derivative is included in trade and other recevables at fair value. The fair value of the embedded derivative is based on the latest available ferrochrome prices and closing foreign exchange rate.

1.18.3 *Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

1.18.4 *Share-based payment transactions*

The fair value of employee share grants is measured using the Black-Scholes-Merton model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on Government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. Refer to note 8 for details regarding the assumptions used in the valuation model.

1.18.5 *Investment in subsidiaries and intercompany loans*

Investment in subsidiaries are measured at cost. Intercompany loans are initially measured at fair value and subsequently at amortised cost. The fair value is determined based on the present value of cash flows, discounted at the group interest rate for debt over the period based on the resources and reserves of the group.

1.19 Mining royalty

The mining royalty was effective from 1 March 2010 and requires the payment of a royalty for the benefit of the National Revenue Fund, in respect of the transfer of mineral resources. The mining royalty is payable on chrome ore in lumps, chips and fines as listed in schedule 2 of the Mineral and Petroleum Resources Royalty Act (the Act).

Chrome ore in lumps, chips and fines is an unrefined mineral resource and therefore the mining royalty is payable on “gross sales” as defined and is calculated in accordance with the unrefined mineral resource formula as detailed in the Act.

Gross sales is calculated using third party sales prices.

The mining royalty is recognised in the statement of profit or loss and is included in operating and other expenses.

1. Accounting policies *(continued)*

1.20 Impairments

1.20.1 *Financial assets*

A financial asset not classified at fair value through profit or los is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about loss events.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest date. Impairment losses are recognised in profit or loss.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial asset are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

1.20.2 *Non-financial assets*

The carrying amount of the group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset. The group reviews and tests the carrying value of asset when events or changes in circumstances suggest that the carrying amount may not be recoverable by comparing the recoverable amounts to these carrying values. If there are indications that impairment may have occurred, estimates are prepared of recoverable amounts. The recoverable amount of the cash generating unit (CGU) is considered to be the value in use (VIU). The VIU is determined based on expected future cash flows of property, plant and equipment which are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including reserves and production estimates, together with economic factors such as the ferrochrome prices, discount rates and foreign currency exchange rates.

1. Accounting policies *(continued)*

1.20 Impairments *(continued)*

1.20.2 *Non-financial assets (continued)*

An impairment loss is recognised if the carrying amount of the asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.
Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and the reversal is recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss has been recognised. The impairment loss that is reversed is recognised in profit or loss.