realm resources

# REALM RESOURCES LIMITED

**ABN 98 008 124 025**

# FINANCIAL REPORT

**31 December 2017**

# Realm Resources Limited

**ABN 98 008 124 025**

## Corporate Information

ABN 98 008 124 025

**Directors**
Gordon Galt – Non-executive Chairman
Michael Davies – Non-executive director
Staffan Ever – Non-executive director
James Beecher – Non-executive director
Michael Rosengren – Managing director

**Company Secretary**
Theo Renard

**Registered Office**
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**Solicitors**
Maddocks
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Sydney NSW 2000 AUSTRALIA

**Auditors**
RSM Australia Partners
Chartered Accountants
Level 13
60 Castlereagh Street
Sydney NSW 2000 AUSTRALIA
Telephone (+61 2) 8226 4500
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**Stock Exchange Listing**
Realm Resources Limited shares are listed on the Australian Securities Exchange (ASX code: RRP).

**Country and Date of Incorporation**
Australia, 30 January 1987

**Website**
http://www.realmresources.com.au/site/content/

## Directors' report

Your directors present their report on the consolidated entity consisting of Realm Resources Limited and the entities it controlled at the end of, or during, the year ended 31 December 2017. Throughout the report, the consolidated entity is referred to as "the Group".

### Information on Directors

**Gordon Galt (Chairman)** *BEng Hons, BCom, MAICD, MAusIMM* **(Non-Executive Chairman)**

Gordon is a mining engineer with extensive coal industry experience in Australia since the early 1970's. In Queensland he worked at South Blackwater, gaining his First Class Mine Manager's qualifications in 1976, then was one of the key early development team members at CapCoal German Creek in 1977. He was initially Open Cut Manager then Mine Manager at Central Colliery - Queensland's first longwall mine and for many years Australia's most productive underground coal mine. He was then Development Manager for Southern Colliery, also at German Creek in 1987. In 1991, Gordon was appointed Operations Manager at Ulan Coal in NSW. He became General Manager at Ulan in 1993, then Managing Director at Cumnock Coal in 1996 before roles as Managing Director with Newcrest Mining and in investment banking with ABN AMRO. Gordon is currently Chairman of NuCoal Resources Limited and Lefroy Exploration Limited and is a Non-Executive Director of Finders Resources Limited.

Gordon is a member of the nominations committee and the remuneration committee.

**Michael Davies** - BA Hons, MBA
*Non-executive director*

Mr Davies a Principal of Taurus Funds Management Pty Ltd, and is a specialist in resource financing, with over 20 years' experience in major banks (Barclays, BZW and ABN AMRO) originating, structuring and arranging debt and providing corporate advice to natural resources companies. Mr Davies is currently a non-executive director of NuCoal Resources Limited and Lefroy Exploration Limited and has not been a director of any other listed companies in the past five years to 31 December 2017.

Mr Davies is a member of the audit committee, the nominations committee, the remuneration committee and the risk management committee.

**Staffan Ever** MBA MSc Civ Eng, MAICD
*Non-executive Director*

Mr Ever is a highly experienced executive in the coal sector with experience in managing and financing coal projects from greenfields through to production coupled with extensive experience in coal marketing and mergers and acquisitions. His previous roles include, CEO of QCoal, Managing Partner of Triangle Fund, 12 years in various roles with AMCI including General Manager of AMCI Australia and Director, on behalf of AMCI, on all Australian investee companies. He has undertaken and overseen equity investments and/or divestments in the Gunnedah, Glennies Creek, Alliance, Coppabella, Moorevale and Sonoma mines.

Mr Ever is currently the Managing Director and Founder of the Square Group of Companies.

Mr Ever is a member of the audit committee, the nominations committee, and the risk management committee.

## Information on Directors (continued)

**Mr James Beecher** B Com MBA, FCPA FAID **(Appointed 1 May 2017)**
*Non-Executive Director*

Mr Beecher has more than 40 years' experience in senior finance, accounting and secretarial positions in resources, financial services and services companies. He has been Chief Financial Officer or Finance Director of NRMA Limited, Savage Resources Limited and Austen & Butta Limited. At the Commonwealth Bank in the role of Deputy CFO he held senior positions including Group Financial Controller and Group Chief Accountant. He is currently a Director of ASX listed Lefroy Exploration Ltd, CBG Capital Ltd and NuCoal Resources Ltd. He has been a Non-Executive Director of Findlay Securities Ltd and MIL Resources Ltd, the Company Secretary of Gloucester Coal Limited and a Compliance Committee Member of FSP Funds Management Ltd and Abacus Funds Management Ltd. He is Deputy Chair of the Australian Institute of Company Directors' Reporting Committee.

Mr Beecher is a member of the audit committee, the nominations committee, and the risk management committee.

**Mr Michael Rosengren,** FAusIMM, MAICD **(Appointed 8 January 2018)**
*Managing Director*

Mr Rosengren obtained a BEng (Mining, First Class Honours) from the University of Queensland in 1984. He was Queensland Rhodes Scholar for 1985. He attended Oxford University, completing a B Arts in 1987, and then obtained an MSc (Mineral Production Management) from the University of London in 1988.

On return to Australia, Michael joined Mount Isa Mines, progressing to Enterprise Mine Manager. He then worked as Resident Manager on construction and operation of the Timbarra Gold Mine in NSW followed by 18 months as General Manager with the Department of Environmental Protection in Western Australia.

In 2002, he became Operations Manager Mining, East Coast, with Henry Walker Eltin before moving to Thiess with roles as Executive Mining Manager – Queensland; General Manager - Queensland across civil, building, mining and rail enterprises; and ultimately Executive General Manager for Australian Mining.

Michael joined BHP Billiton in 2011, with responsibility for Poitrel and South Walker Creek open cuts in Queensland. In 2013 he became Vice-President, Production, for additional mines including Illawarra Coal, New Mexico Coal, Cerrejon and Indomet. He left BHPB in late 2014 and since that time has worked in private companies and consulting roles.

Michael is a member of the remuneration committee.

**Mr Richard Rossiter** BSc (Hons), MSc. **(Resigned 6 March 2017)**
*Executive Director*

Mr Rossiter began his career as a geologist in the South African gold industry. He subsequently qualified in mine management and held various production management and business development roles. He then joined the financial sector as a mining analyst and later was responsible for corporate advisory, mergers, acquisitions, and divestments. He then set up a consultancy and joined several public company Boards including Sylvania Platinum Ltd (AIM: SLP to 2013)) and, more recently, Chrometco Ltd (JSE: CMO). He has not been a director of any other listed companies in the past five years to 31 December 2017. He holds a Bachelor of Science (Hons) in Geology from the University of Natal and an MSc in Mineral Exploration from Rhodes University in South Africa.

## Information on Directors (continued)

**Mr Theo Renard** CA(SA), CSA **(Resigned 6 March 2017)**
*Executive director and company secretary*

Mr Renard is a Chartered Accountant and has over 21 years' experience in credit and relationship banking in commercial and investment banking with Nedcor in South Africa and Asia and ABN AMRO in Australia and Asia. He spent over two years as CFO and Company Secretary with a retail Group with retail and manufacturing operations in Asia and the Subcontinent, during that time he was a director of several of the South African listed companies and affiliates. He has not been a director of any other listed companies in Australia in the past five years to 31 December 2017.

**Mr Glen Lewis** MAICD **(Appointed 6 March 2017) (Resigned 8 September 2017)**
*Managing Director*

Mr Lewis is a qualified Coal Mine Manager and has worked in the Coal Industry since 1980. Throughout his career he worked at all levels of Management inclusive of 10 years as an Undermanager at various operations including United Colliery and Dartbrook Coal where he was part of the Management Team for the construction of both projects. In 1997 he commenced as Mine Manager at Cumnock Coal and in 1999 was promoted to Operations Manager at Oceanic Coal (consisting of West Wallsend and Teralba underground mines and Westside open cut operation) following its acquisition by Xstrata Coal. Mr Lewis was promoted to the role of General Manager Eastern Underground Operations for Xstrata Coal NSW in 2003 and was then responsible for United Collieries, Cumnock Coal and Oceanic Coal. Continuing with Xstrata Coal NSW, he was promoted to General Manager Operations with overall responsibility for 6 operating mines and several projects under construction. Mr Lewis commenced with NuCoal Resources in 2010 as Managing Director overseeing the listing, capital raising, exploration and feasibility studies for a number of mining projects in the Hunter Valley. Throughout his career he has been involved with the development and/or expansion of many coal mines and provides a strong technical and operational background to Realm Resources.

## Interests in the shares and options of the Company

### Number of Shares held by all key management

At the date of this report, the interests of all key management in the shares of Realm Resources Limited were:

| 31 December 2017 | Balance 1-Jan-17 | Granted | On exercise of options | Net change other | Balance 31-Dec-17 |
|---|---|---|---|---|---|
| ***Key Management Personnel (KMP)*** | | | | | |
| Gordon Galt * | 150,000 | - | - | - | 150,000 |
| Richard Rossiter * | 75,000 | 1,000,000 | - | - | 1,075,000 |
| Theo Renard * | 545,000 | 1,000,000 | - | - | 1,545,000 |
| Peter Briggs | - | 1,000,000 | - | | 1,000,000 |
| Glen Lewis | - | 1,000,000 | - | - | 1,000,000 |
| James Beecher | - | 1,000,000 | - | - | 1,000,000 |
| Staffan Ever | - | 1,000,000 | - | - | 1,000,000 |
| | **770,000** | **6,000,000** | **-** | **-** | **6,770,000** |

* On 19 July 2017, there was a 1 for 10 share consolidation. The consolidated opening balance has therefore been adjusted retrospectively.

## Interests in the shares and options of the Company (continued)

**Number of options held by all key management**

| 31 December 2017 | Balance 1-Jan-17 | Granted | Net change other | Balance 31-Dec-17 | Vested at 31-Dec-17 Exercisable | Vested at 31-Dec-17 Not exercisable |
|---|---|---|---|---|---|---|
| Eva Armilla | - | 200,000 | - | 200,000 | - | - |
| | **-** | **200,000** | **-** | **200,000** | **-** | **-** |

* On 19 July 2017, there was a 1 for 10 share consolidation. The consolidated number of options has therefore been presented.

There were no options held by key management as at 31 December 2016.

## Shares issued as a result of the exercise of options

There were no ordinary shares of the company issued on the exercise of options during the year ended 31 December 2017.

## Shares under option

As at the reporting date, there were 10,000,000 unissued ordinary shares under options. Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate. Subsequent to the reporting date, 10,000,000 options held by Taurus Resources Fund No. 2 were exercised at $0.50 for $5,000,000.

## Employee Share Plans

There were 9,150,000 shares outstanding at the end of the financial year under the Employee Share Plan.

## Employee Option Plan

There were 200,000 options outstanding at the end of the financial year under the Employee Option Plan.

## Review of Results and Operations

Realm Resources Limited and its controlled entities ("Realm" or "the Group") has recorded revenue from continuing operations of $344,975,000 ($111,513,000 in 2016) and profit after income tax revenue for the year ended 31 December 2017 of $103,100,000 of which $103,030,000 is attributable to owners of Realm Resources Limited, versus a profit of $19,766,000 in 2016, of which $19,704,000 was attributable to owners of Realm Resources Limited. Net operating cashflows for the year ended 31 December 2017 totalled AUD$80,148,000 and Realm's cash on hand as at 31 December 2017 was AUD$64,853,000.

### Summary

***Foxleigh Coal Mine Overview***

Foxleigh Mine is located in Queensland's Bowen Basin coalfield, 12km south of Middlemount and 272km northwest of Rockhampton (Figure 1). The mine was established in 1999 as an open cut operation producing benchmark quality, LV PCI coal for the export market. Saleable production in CY 2017 (100% basis) was ~3.0 million tonnes.

Foxleigh is owned and operated as a Joint Venture with POSCO Australia Pty Ltd ("POSCO") and Nippon Steel & Sumitomo Metal Pty Ltd ("Nippon") owning 20% and 10% respectively. POSCO and Nippon are longstanding customers of Foxleigh.

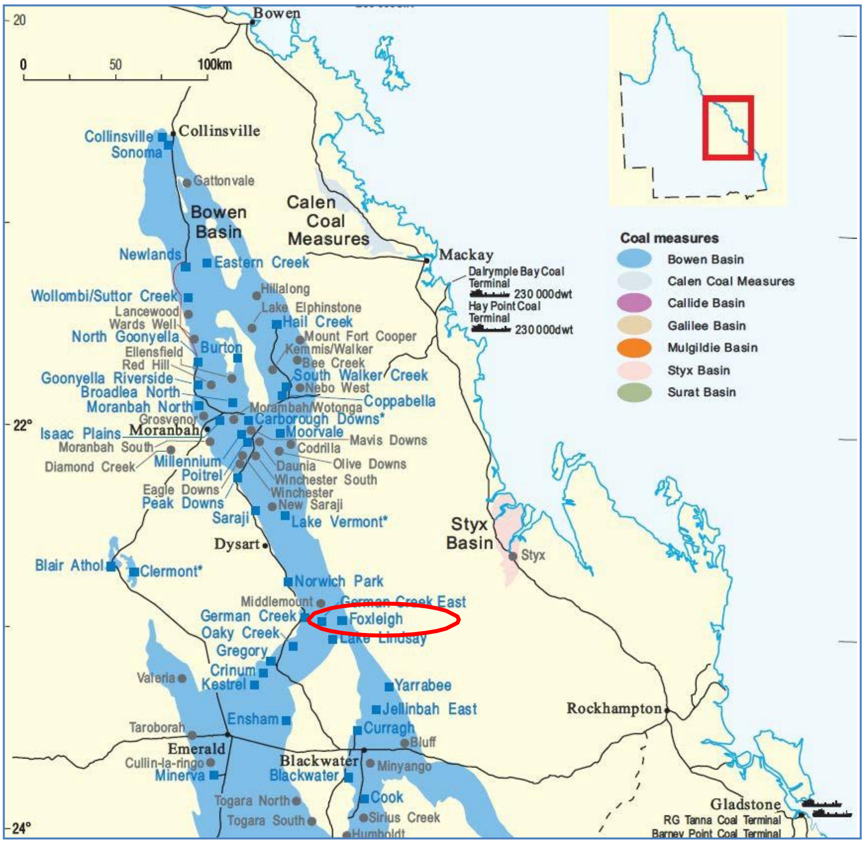
## Review of Results and Operations (continued)

Mining is undertaken using the truck and excavator methods with raw coal delivered to Foxleigh's coal handling and preparation plant ("CHPP") for washing.

Product coal is hauled 27km on a private haul road to a dedicated train loading facility located alongside the Capcoal rail loop and is then railed 280km to the Dalrymple Bay Coal Terminal ("DBCT") at the Port of Hay Point near Mackay, Queensland.

Foxleigh has a diversified base of longstanding customers in key export markets including South Korea, Taiwan and Japan.

*Figure 1: Foxleigh Location and Infrastructure Map*




Source: Queensland Government – Department of Mines and Energy

2017 was RRP's first full calendar year of ownership of its 70% interest in the Foxleigh JV. Despite dealing with the after effects of tropical cyclone Debbie, 2017 was a year of significant achievement.

The risk profile of the operation has been lowered with new excavators commissioned; a critical creek diversion and associated flood levee completed, and the opening-up of a second coal source via the One Tree West pit. RRP enters 2018 with Foxleigh well prepared to meet challenges.

RRP ended the year with A$65m in cash and, following an amendment to the Performance Guarantee and Working Capital Facility, had a further US$40m of available liquidity through this undrawn working capital facility.

RRP remains in suspension from ASX pending re-compliance with ASX Listing Rules 1 and 2.

## Review of Results and Operations (continued)

### *Safety and Health*

The focus on safety, health and environment, and community issues continued at Foxleigh during 2017.

There was an increased focus on the Safety Health Management System (SHMS) and the implementation of the site's dust monitoring program to reduce potential coal mine worker pneumoconiosis (black lung) exposure. An external audit of the SHMS was completed during 2017 and indicated a comprehensive system with a number of opportunities for further improvement.

Foxleigh ended the year having experienced two lost time injuries and a Total Recordable Injury Frequency Rate (TRIFR) of 7.42. Safety continues to be an area where we cannot be complacent and the site management team continues to look at embedding risk management as a key component of decision making.

Foxleigh was one of only two mines in Queensland to have been recognised by the Queensland Department of Health as a strong promoter of workplace health. Late in 2017, a Smoke Free program and a fitness program commenced at the mine.

### *Environment*

Rehabilitation works continued throughout 2017, and have been an ongoing feature of RRP's ownership of its interest in the Foxleigh JV.

A total of A$6.9m (100% basis) was spent on rehabilitation at Foxleigh, resulting in 325 Ha of rehabilitation being completed during 2017. These works included profiling, topsoil placement and spine drain installation, along with seeding.

### *Community and adjoining landowners*

Middlemount South (MMS) supported the community of Middlemount and nearby landholders during 2017 with various projects, most notably assisting with the refurbishment of the Middlemount Golf and Country Club.

MMS is an active participant in the Queensland Minerals and Energy Academy (QMEA). Through its school-industry partnerships the QMEA offers a range of programs and experiences to broaden students and teachers' knowledge of the sector and provide a talent pipeline of employees into the resources sector and other related science, technology, engineering and maths industries. A participant from last year's program has started as a trainee pump crew operator at Foxleigh.

Fourteen indigenous production trainees were engaged over 2017, with considerable success through the year. In relation to adjacent landholders, MMS assisted with the relocation of two houses, constructed a new access road and installed more than 10km of rural cattle fencing.

## Review of Results and Operations (continued)

### *Production and Sales*

Key operating results, by quarter and for the full 2017 calendar year are shown below:

*Table 1: Foxleigh Coal Mine (100%) Operating Results*

| | MarQ17 | JunQ17 | SepQ17 | DecQ17 | 2017 | 2016 | YoY % Change |
|---|---|---|---|---|---|---|---|
| ROM coal produced (kt) | 997 | 920 | 956 | 1,154 | **4,027** | 4,366 | (7.8%) |
| ROM strip ratio (bcm waste / ROM t) | 5.6:1 | 7.9:1 | 11.3:1 | 8.8:1 | **8.4:1** | 7.0:1 | (20.0%) |
| CHPP Feed (kt) | 1,017 | 736 | 1,154 | 1,114 | **4,021** | 4,388 | (8.4%) |
| CHPP Yield (%) | 76.8% | 70.6% | 73.5% | 73.2% | **73.5%** | 72.5% | 1.6% |
| Saleable coal produced (kt) | 781 | 519 | 848 | 815 | **2,963** | 3,182 | (6.9%) |
| **Total coal sales (kt)** | 698 | 790 | 564 | 715 | **2,767** | 2,957 | (6.4%) |

### *Impact of Tropical Cyclone Debbie*

Tropical cyclone Debbie struck Queensland at the end of March 2017, damaging the Goonyella rail system. March received 315mm of rain, representing some 58% of the year's total rainfall. Following repairs to the system, Aurizon Holdings reopened the Goonyella rail system on 26 April. The network initially operated on a speed restricted basis. All speed restrictions were lifted on 10 May 2017, at which time the Company's above-rail provider, Pacific National, lifted its force majeure notice.

While the rail network was unserviceable, Foxleigh mine produced and stockpiled run of mine coal, while undertaking maintenance works in the CHPP. Washing of coal resumed as product stockpiles reduced with the recommencement of railings (28 April) to Dalrymple Bay Coal Terminal for shipment to customers. The company's port stockpile was shipped while the rail network was closed.

### *Cockatoo Creek Diversion*

As part of ongoing operations, the mine needed to undertake civil works to complete a 4.1km diversion to Cockatoo Creek. These works included the realignment of a public road and the construction of 5.6km of flood protection levees. This work was awarded to the AE Group with an expected total cost of $15.6M. The project reached operational completion in the June Quarter and was completed within budget. The creek diversion materially extends the life of the Foxleigh Plains pit.

### *Production*

With completion of the Cockatoo Creek Diversion and Levee, the Foxleigh mine commenced straightening the face of the Foxleigh Plains pit.

Towards the end of the year, work also commenced on the re-opening of One Tree West pit. Access to the One Tree West pit de-risks the operation by providing a second source of coal and a greater ability to blend mined coal.

## Review of Results and Operations (continued)

### *Equipment upgrades*

During the year, the Foxleigh Joint Venture (Realm 70%) approved a significant upgrade to the mining fleet used at the Foxleigh Mine, at an approximate cost of $24.5m (100% basis). Two Liebherr 9400 excavators and one Liebherr 996B excavator were ordered to replace the (aged) equipment previously in use. One Liebherr 9400 excavator was successfully commissioned in October and the larger Liebherr 996B excavator was commissioned in mid-December, ahead of expectations. The third new excavator (a Liebherr 9400) was commissioned in the first quarter of 2018.

The new excavators reduce the risk profile of the mining equipment and should assist the site to reliably meet its targeted production in future years.

### *Sales*

As can be seen by pricing outcomes, demand for LV PCI coal remained robust throughout 2017. However, shipments during 2017 were hampered by tropical cyclone Debbie in March, and congestion created by the industry attempting to recoup these lost sales throughout the last quarter of 2017.

Foxleigh's premium high-quality LV PCI coal is sold to longstanding contracted customers in key export markets including South Korea, Japan, and Taiwan, with some spot sales to other jurisdictions.

### *Exploration and Development*

2017 saw a continuation of exploration activities commenced in 2016, together with a review of existing drilling information on the 100% owned EPC 855 and EPC 1669.

The Department of Natural Resources and Mines renewed EPC 1139 in total (143 sub blocks) for a 5-year term with nil relinquishment for years 1-3. This was an important development as it provides the Foxleigh JV time to fully explore the remaining unexplored areas of EPC 1139.

### *Roper Creek Coal Project Resource*

Drilling was completed at Roper Creek Coal Project (**RCCP**) (Realm 100%) in June 2017 and an initial JORC coal resource estimate for this area was prepared by McElroy Bryan Geological Services, as follows;

- Coal Resources for RCCP, estimated as at 30 June 2017, and reported in accordance with the JORC Code 2012, are 48Mt (42Mt Indicated and 6Mt Inferred) to 200m vertical depth.
- Coal seams in RCCP are the northerly extensions of seams in the Foxleigh Mine. With beneficiation, these seams can produce a Low Volatile PCI product.
- RCCP Coal Resources are separate, and in addition to, the Foxleigh Mine Coal Resources (which includes Reserves) of 106.3Mt (42.5Mt Measured, 37.9Mt Indicated and 25.9Mt Inferred) and Marketable Reserves 49.1Mt (31.1Mt Proved and 17.9Mt Probable). Realm holds a 70% interest in the Foxleigh Mine Coal Resources (refer to ASX announcement 13th September 2017 for details).

## Review of Results and Operations (continued)

### *Foxleigh Plains (RRP 70%) JORC Update*

The Foxleigh Plains Project is a subset of the operating Foxleigh Coal Mine (Realm 70%). This area is under an existing Mining Lease (ML) which will greatly assist with future development of the area.

Updated geological assessments and studies at the Foxleigh Plains Project were completed in 2017, incorporating 80 additional drill holes into a new estimate of Coal Resources and Reserves, independently completed by Measured Group Pty Ltd (see ASX release of 22 December 2017).

Coal Resources for the Foxleigh Plains Project were estimated at 63Mt (28.5Mt Measured, 24.5Mt Indicated and 10Mt ROM Inferred), and ROM Reserves at 51.2Mt (33.5Mt Proven and 17.7Mt Probable) as at 30 September 2017 and reported in accordance with the JORC Code 2012.

Marketable Reserves for the Foxleigh Plains Project increased by 10Mt of Low Volatile PCI product to 34.3Mt (22.6Mt Proven and 11.7Mt Probable) compared to the prior assessment (24.4Mt) on 31 October 2016.

This estimate of Coal Resources and Reserves was an update to the Foxleigh Plains Project component of the broader Foxleigh Coal Mine JORC Statement as disclosed in the ASX Announcement 'Initial JORC Statement of Coal Resources and Reserves' dated 20 December 2016 and updated in the Independent Geologist's Report which was incorporated into Realm's Notice of Extraordinary General Meeting dated 14 June 2017.

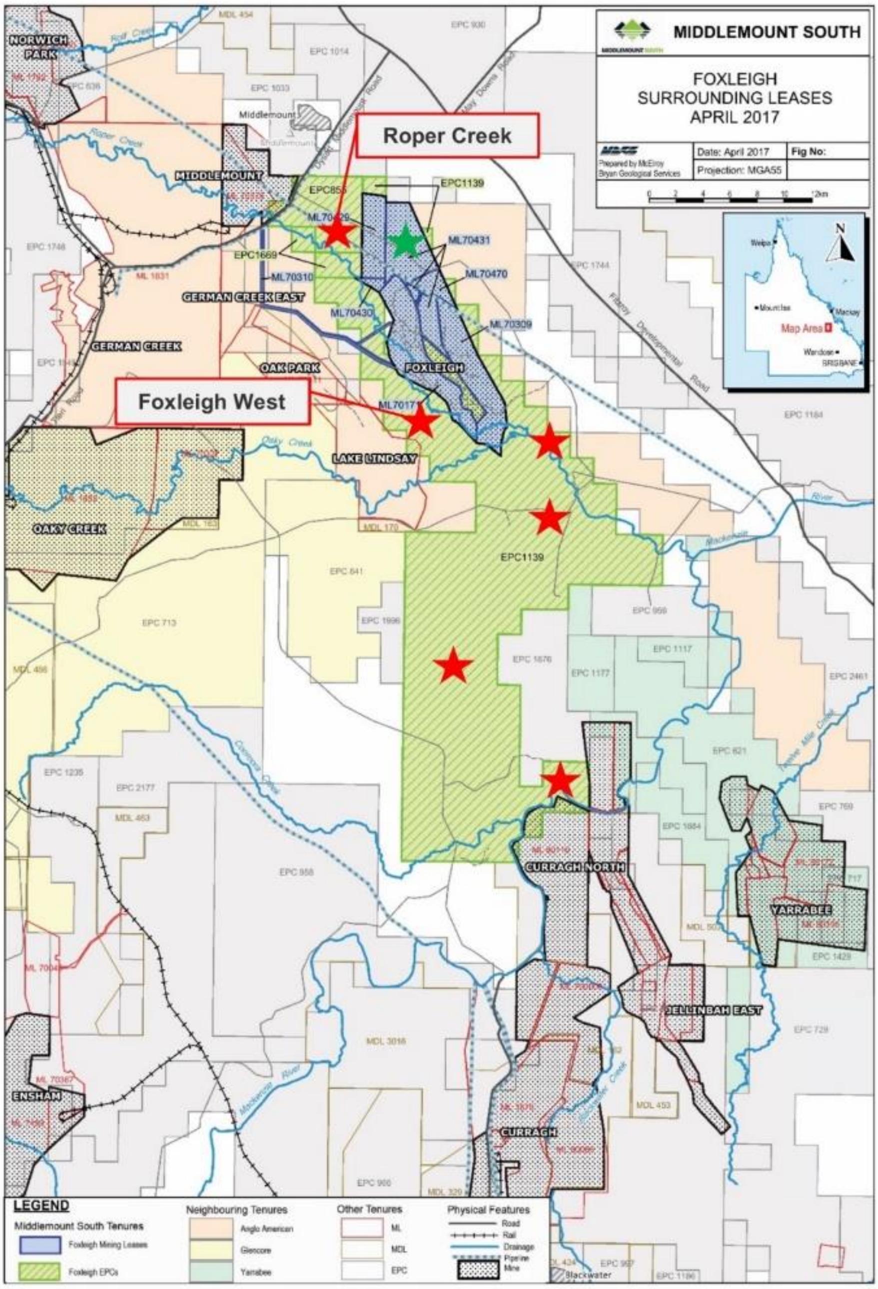
### *Site wide exploration*

Exploration drilling on the Eagles Nest tenement, also covered by an ML (Realm 70%), commenced on 26 July 2017 will provide additional information to assist in the geological understanding of this area of the Foxleigh site.

The company is working on a site wide update and expects to release a JORC statement in the first half of 2018.

## Review of Results and Operations (continued)

***Figure 2: Foxleigh Mine and Surrounding Leases showing Target Areas***




**Note: Red stars represent priority targets**

## Review of Results and Operations (continued)

### *Katingan Ria Coal Project*

The Company continues to engage with PLN (Indonesian State owned Electricity Corporation) and other potential partners/buyers in order to progress its power station strategy. The Katingan Ria thermal coal project (Realm 51%) is suited to supply a proposed mine mouth power station in the region.

At the time of writing the expected price in the export market for Katingan Ria coal is US$43/t. In the case of a mine mouth power station, the expected price is governed by legislation and is set at a level based on agreed costs plus a 15% to 25% margin.

### South African Projects

### *Aluminium Waste Toll Treating Business*

*Health and Safety*

The focus on safety training and monitoring continued in 2017 with one disabling injury experienced during the year. The disabling injury frequency rate (DIFR) was 1.14% in calendar year 2017 (2016:0%).

*Smelting and recovery performance comparison*

| Alumicor | 2013 | 2014 | 2015 | 2016 | 2017 | % change 2016 |
|---|---|---|---|---|---|---|
| Tonnes smelted | 17,594 | 17,866 | 19,595 | 18,815 | **17,884** | -5% |
| Average recovery | 64% | 66% | 59% | 58% | **60%** | +3% |

Following extensive negotiations, Alumicor signed a new dross and scrap processing agreement with Hulamin. Under the terms of this agreement, Hulamin will send all of its dross and scrap to Alumicor for processing.

Alumicor continued to operate profitably and deliver positive cashflow during 2017, with management’s attention focussed on running the business safely and efficiently.

Tonnes smelted in 2017 were impacted by furnace refurbishments at Alumicor and Hulamin’s decision to refurbish a furnace at its own facility.

As previously advised, RRP is undertaking a divestment process for Alumicor.

### Platinum Group Metals

Chrometco (JSE:CMO), in which Realm owns 45m shares, and the Sail Group of Companies “Sail” executed agreements that resulted in Sail acquiring just less than 90% of Chrometco. In return, Chrometco received: cash; a controlling stake in two fully financed chrome projects, and a stake in Sail Minerals. By joining the respective strengths of Sail and Chrometco, as well as the potential of two exceptionally good chrome projects, the new entity appears well placed to become a significant player in the chrome market (Refer http://www.chrometco.co.za/ ).

Realm is considering alternatives to realise value from this asset now that the Sail transaction has been finalised.

The Company continues to keep its mineral rights situated in the Eastern Limb of the Bushveld Igneous Complex in good standing.

## Review of Results and Operations (continued)

Platinum prices ranged between US$880/oz and US$1,020/oz during the year. At the time of writing the platinum price was US$947/oz.

### Business Development

Numerous opportunities were reviewed during the year, with the focus directed at metallurgical coal projects or mines with near term cash generation capacity, largely in first world jurisdictions.

### Corporate

During the September quarter Mr Glen Lewis resigned for personal reasons. Mr Peter Briggs was appointed as interim CEO. A search process to find a new Managing Director was commissioned and Mr Michael Rosengren was appointed as Managing Director, with a start date of 8 January 2018. After year-end, Mr Rosengren commenced in the role, as anticipated.

On 15 December 2017, Realm received an indicative, confidential, conditional, non-binding and incomplete proposal from T2 Resources Fund Pty Ltd to acquire 100% of the issued capital of the Company that it did not already own for $0.90 cash per share. This proposal was subject to certain conditions including the completion of satisfactory due diligence and Foreign Investment Review Board approval.

### Repayment of Taurus Resources Fund No. 2 $45m Debt

The loan of A$45m provided by Taurus Resources Fund No. 2, together with interest, was repaid on 29 August 2017. The repayment was made from available cash funds on the loan expiry date.

Following the repayment, the following facilities remained available from Taurus Mining Finance Fund:

- Performance Guarantee Facility with a limit of US$78.5m, under which existing guarantees totalling US$48.9m (A$64.3m equivalent) have been issued; and
- Working Capital Facility with a limit of US$20.0m – currently undrawn.

### Amendment of Performance Guarantee and Working Capital Facility

During the year, the terms of the Secured Loan Facility of A$US98.5m provided by Taurus Mining Finance Fund L.P. and Taurus Mining Finance Annex Fund L.P. to Middlemount South (MMS) Pty Limited (Realm's 99.9% owned subsidiary) were amended.

In summary, these amendments include:

- Amending the "approved purpose" of the Performance Guarantee Facility to permit the use of up to US$20m for the working capital requirements of the Foxleigh Coal Mine (allowing US$40 million to be drawn under the Working Capital Facility);
- Extending the "termination date" of the Facility Agreement to 31 January 2019; and
- Permitting MMS to reborrow any part of the Performance Guarantee Facility or Working Capital Facility that has been repaid or prepaid.

These amendments provide flexibility and enable efficient management of short and mid-term working capital requirements.

## Review of Results and Operations (continued)

### Subsequent to the Reporting Period

On 8 January 2018, Mr Michael Rosengren was appointed as Managing Director of Realm Resources Limited and Mr Peter Briggs resigned as director of Middlemount South Pty Limited and its controlled entities.

On 9 February 2018, the intention of T2 Resources Fund Pty Ltd to make an unsolicited, conditional off market takeover offer to purchase all of the issued shares in Realm Resources Limited that it did not already own for $0.90 cash per share was lodged with ASX.

On 12 February 2018, Taurus Resources Fund No. 2 exercised 10,000,000 options for $5,000,000 at an aggregated exercise price of $0.50.

On 22 February 2018, 500,000 shares were issued at $0.87c per share under the Company's Directors and Employees Incentive Plan approved by shareholders on 31 March 2016.

On 27 February 2018, 2,116,666 shares were bought back at 61.5 cents and 250,000 shares were bought back at $1.015, being the result of employees and former employees no longer being entitled to the shares in accordance with the Realm Resources Limited Employee Share Plan.

On 14 March 2018 the bidder's statement was dispatched to Realm Shareholders by the Bidder in connection with its off-market takeover bid for all of the issued shares in Realm which it did not already own for $0.90 cash per share. This bidder's statement was amended by a supplementary bidder's statement dated 15 March 2018.

A Target's Statement has been commissioned and an Independent Expert's and a Technical Expert's reports will be included within this Target's Statement; expected to be released on or around the date of this annual report.

Other than above, no other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect,

(a) The Group's operations in future financial years, or

(b) The results of those operations in future financial years, or

(c) The Group's state of affairs in future financial years.

### Meetings of directors

The numbers of meetings of the Company's board of directors, the audit committee and the remuneration committee during the year ended 31 December 2017, and the numbers of meetings attended by each director, were:

| | Board Meetings | | Audit and Risk Committee Meetings | | Nomination and Remuneration Committee Meetings | |
|---|---|---|---|---|---|---|
| | No. of Meetings Eligible to Attend | No. of Meetings Attended | No. of Meetings Eligible to Attend | No. of Meetings Attended | No. of Meetings Eligible to Attend | No. of Meetings Attended |
| Gordon Galt | 11 | 10 | - | - | 2 | 2 |
| Glen Lewis | 6 | 6 | - | - | - | - |
| James Beecher | 7 | 7 | 2 | 2 | 2 | 2 |
| Staffan Ever | 11 | 10 | 2 | 2 | 2 | 2 |
| Michael Davies | 11 | 10 | 2 | 2 | 2 | 2 |

Company Secretary: Theo Renard

## Review of Results and Operations (continued)

### Principal activities

The company's primary focus is creating shareholder value through the operation of the Foxleigh Mine in Central Queensland, while advancing development ready projects throughout the region.

Realm holds a beneficial interest in 99.9% of the issued capital in Middlemount South Pty Ltd which operates the Foxleigh Mine in Central Queensland, on behalf of the Foxleigh Coal JV.

Additionally, Realm owns all issued capital in Kalres Limited and through Kalres a 51% interest in an Indonesian coal company, PTKR, which holds the Katingan Ria concession (Katingan Ria Project), located in Central Kalimantan, Indonesia.

In South Africa, Realm has interests in an aluminium dross treatment plant located in Pietermaritzburg as well as a number of Platinum Group metals (PGM) leases.

Foxleigh Coal (Foxleigh Management) Pty Ltd has been contracted by the Group and other participants of the JV to manage, supervise and conduct the operations of the Foxleigh JV. As operator, Foxleigh Coal (Foxleigh Management) Pty Ltd enters into transactions (including employment and supply agreements) on behalf of the Foxleigh JV. All transactions entered into by Foxleigh Coal (Foxleigh Management) Pty Ltd for the benefit of the Foxleigh JV are accounted for in the books of the Foxleigh JV.

Foxleigh Coal (Foxleigh Services) Pty Ltd is an employment company which enters into transactions of employment on behalf of the Foxleigh JV. All transactions entered into by Foxleigh Coal (Foxleigh Services) Pty Ltd for the benefit of the Foxleigh JV are accounted for in the books of the Foxleigh JV.

*Sales company*

Foxleigh Sales & Marketing Pty Ltd acts as the sales agent for the Group and the other JV participants. The company proportionally consolidates 70% of the assets, liabilities, revenue and expenses of Foxleigh Sales & Marketing Pty Ltd.

## Financial results

The consolidated profit after income tax for the year ended 31 December 2017 was $103,100,000 (2016: $19,766,000), and the profit attributable to members of Realm Resources Limited was $103,030,000 (2016: $19,704,000).

## Review of operations

A review of the operations of the Group is contained within the "Review of results and operations".

## Dividends

No dividend has been paid or declared since the start of the financial year and the directors do not recommend the payment of a dividend in respect of the financial year.

## Likely developments and expected results of operations

Additional comments on expected results and developments are contained in the "Review of results and operations". Future information on likely developments in the operations of the Group and the expected results of operations have not been included in this financial report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

## Environmental regulation

The group holds licences issued by the relevant environmental protection authorities of the various countries it operates. There have been no significant known breaches of the consolidated entities' licence conditions or any environmental regulations.

## Indemnity and insurance of officers

During the financial year, Realm Resources Limited paid a premium to insure the directors and secretaries of the Company and its Australian-based controlled entities, and the directors of each of the subsidiaries of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

## Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

## Auditor's independence

A copy of the auditor's independence declaration as required under section 307 of the *Corporations Act 2001* is set out on page 25.

### Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

### Significant changes in state of affairs

On 14 November 2017, the group announced its intention to exit the Aluminium business and initiated a process to locate a buyer for its South African subsidiary, Alumicor. The associated assets and liabilities were consequently presented as held for sale in the 2017 financial statements.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

### Officers of the company who are former partners of Accounting Firm RSM

There are no officers of the company who are former partners of Accounting Firm RSM.

## Rounding of amounts

The company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## Non–audit services

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

Details of the amounts paid or payable to the auditor (RSM) for audit and non-audit services provided during the year are set out in note 30 to the financial statement.

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

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

During the year, the auditor of the parent entity provided tax compliance and tax advisory services for fees of $81,690 as well as various other Corporate Finance services of $115,940 which included an investigating accountants review, valuation, and due diligence services. During the year the company used BDO South Africa Incorporated to provide audit services to its subsidiaries, Alumicor SA Holdings Proprietary Limited and its controlled entities, and Realm Resources (Pty) Limited and its controlled entities. There were non-audit services provided by BDO South Africa Incorporated, see note 30 to the financial statements. During the year the company appointed CA Trust PAC in Singapore to provide audit services to Realm Resources Pte. Ltd and Kalres Pte. Ltd. No non-audit services were provided by CA Trust PAC.

Details of auditors' remuneration is included in note 30 to the financial statements.

## Remuneration report (audited)

This Remuneration Report outlines the director and executive remuneration arrangements of the Group and in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report Key Management Personnel ("KMP") of the Group are defined as those persons reporting to non-executive chairman.

## Remuneration report (audited) (continued)

### Details of key management personnel

Key management personnel of Realm Resources Limited during the financial year were:

| | |
|---|---|
| Gordon Galt | Chairman |
| Richard Rossiter | Executive director (resigned as director 6 March 2017) |
| Theo Renard | Executive director (resigned as director 6 March 2017) |
| Michael Davies | Non-executive director |
| Staffan Ever | Non-executive director |
| Peter Briggs | Interim Chief Executive officer (resigned 6 March 2017 and reappointed 8 September 2017 and resigned 8 January 2018) |
| Glen Lewis | Managing director (appointed 6 March 2017) (resigned 8 September 2017) |
| Eva Armila | General Manager |
| James Beecher | Non-executive director (appointed 1 May 2017) |

### Principles used to determine the nature and amount of remuneration

***Remuneration philosophy***

The performance of the Group depends upon the quality of its directors and executives. To prosper, the Group must attract, motivate and retain highly skilled directors and executives.

To this end, the Group embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value; and
- Significant portion of executive remuneration “at risk” provided through participation in incentive plans.

Shares and options issued under the incentive plans provide an incentive to stay with the Group. At this time, shares and options issued do not have performance criteria attached.

***Remuneration Committee Responsibilities***

The remuneration committee is responsible for making recommendations to the board on the remuneration of non – executive directors (“NEDs”) and executives on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high performing director and executive team. In determining the level and composition of executive remuneration, the remuneration committee also engages external remuneration consultants to assist in this review.

The remuneration committee comprises two NEDs.

***Remuneration Approval Process***

The board approves the remuneration arrangements of the non-executive chairman and executives and all awards made under the long term incentive (LTI) plan, following recommendations from the remuneration committee. The board also sets the aggregate remuneration of NEDs which is subject to shareholder approval.

The remuneration committee approves, the level of the Group short term incentive (“STI”) pool.

## Remuneration report (audited) (continued)

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

***Remuneration Structure***

In accordance with good practice corporate governance, the structure of non-executive and executive director remuneration is separate and distinct.

***Non-executive director remuneration***

_Objective_

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

_Structure_

The Company's constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors must be determined from time to time by shareholders of the Company in a general meeting. An amount not exceeding the amount determined is then divided between the non-executive directors as agreed. The current aggregate limit of the fee cap for non-executive directors is $450,000 per annum.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst non-executive directors is reviewed annually. The Board may consider advice from external consultants, as well as the fees paid to non-executive directors of comparable companies, when undertaking the annual review process.

The non-executive directors of the Company may also participate in the share and option plans as described in this report, which provide incentives where specified criteria are met.

***Executive directors and senior management remuneration***

_Objective_

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and so as to:

- reward executives for Group, business team and individual performance;
- align the interests of executives with those of shareholders; and
- ensure total remuneration is competitive by market standards.

_Structure_

At this time, the base cash component of remuneration paid to directors, the Company Secretary and other senior managers is not dependent upon the satisfaction of performance conditions.

## Remuneration report (audited) (continued)

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

#### *Directors and senior management remuneration (continued)*

The key management personnel of the Group are those directors of the Company and those executives that report directly to the non-executive chairman. Details of directors and key personnel contracts are as follows:

| Name and Designation | Duration of Contract (in years) | Period of Notice to Terminate (in months) | Termination Payments Under Contract | Annual director fees $ |
|---|---|---|---|---|
| **Directors** | | | | |
| Gordon Galt – Non-Executive Chairman(iii) | N/A | N/A | N/A | 131,400 |
| RD Rossiter – Executive Director(iii) | 2 (commencing 1 Jul 2011(ii)) | Nil | (i) | 350,000 |
| TN Renard – Executive Director(iii) | 2 (commencing 23 Dec 2008(ii)) | Nil | (i) | 300,000 |
| MNM Davies – Non-Executive Director | N/A | N/A | N/A | N/A |
| Staffan Ever – Non-Executive Director | N/A | N/A | N/A | 65,700 |
| James Beecher – Non-Executive Director | N/A | N/A | N/A | 83,220 |
| Glen Lewis – Managing Director | N/A | 3 | None | 400,000 |
| Peter Briggs – Interim Chief Executive Officer | N/A | N/A | None | $1,640 per day And $1,874 per day |
| **Key Management Personnel** | | | | |
| E Armilia – General Manager, PT Katingan Ria | Indefinite | 2 | None | US90,000 |

*(i) Termination without cause by either the Company or the executive giving the other party notice in writing. If notice given by the Company, it agrees to pay the greater of the balance of the consultancy fee or six or twelve months' consultancy fee. The consultant may terminate upon giving the company notice in writing for 3 months.*

*(ii) Following completion of the contract, if the parties agree, the terms of the contract are extended for 2 year rolling periods, pursuant to the terms of the respective agreement.*

*(iii) Superannuation not applicable.*

*Remuneration*

Use of remuneration consultants

During the financial year ended 31 December 2017, the Group, through the Nomination and Remuneration Committee, engaged Godfrey Remuneration Group Pty Ltd (GRG), remuneration consultants, to determine the value of shares and options granted during the 2017 financial year. GRG was paid $8,800 for these services.

## Remuneration report (audited) (continued)

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

***Directors and senior management remuneration (continued)***

An agreed set of protocols were put in place to ensure that the grants of shares and options valuation would be free from undue influence from key management personnel. These protocols include requiring that the consultant not communicate with affected key management personnel without a member of the Nomination and Remuneration Committee being present, and that the consultant not provide any information relating to the outcome of the engagement with the affected key management personnel. The Board is also required to make inquiries of the consultant's processes at the conclusion of the engagement to ensure that they are satisfied that any recommendations made have been free from undue influence. The Board is satisfied that these protocols were followed and as such there was no undue influence.

## Remuneration of key management personnel of the Company

*Table 2: Remuneration for the year ended 31 December 2017*

| | Short Term | | | Post-employment Benefit | Share Based Payment | |
|---|---|---|---|---|---|---|
| | Directors Fees $ | Salary and Consulting Fees $ | Bonus $ | Superannuation Contribution $ | Employee Share and Option Plans $ | Total $ |
| **Non-executive directors** | | | | | | |
| Gordon Galt | 131,400 | - | - | - | - | 131,400 |
| Staffan Ever | 60,000 | - | - | 5,700 | 474,656 | 540,356 |
| Michael Davies | - | - | - | - | - | - |
| James Beecher | 55,480 | - | - | - | 474,656 | 530,136 |
| Sub–total non–executive directors | 246,880 | - | - | 5,700 | 949,312 | 1,201,892 |
| **Executive directors** | | | | | | |
| Richard Rossiter | 1,783 | 350,000 | 75,000 | 475 | 474,656 | 901,914 |
| Theo Renard | 1,783 | 300,000 | 60,000 | 308 | 474,656 | 836,747 |
| Glen Lewis | - | 223,350 | 50,000 | 22,932 | 474,656 | 770,938 |
| Sub–total executive directors | 3,566 | 873,350 | 185,000 | 23,715 | 1,423,968 | 2,509,599 |
| **General Management** | | | | | | |
| Peter Briggs | - | 276,673 | 100,000 | - | 474,656 | 851,329 |
| Eva Armila | - | 117,475 | - | - | 94,931 | 212,406 |
| Sub–total General Management | - | 394,148 | 100,000 | - | 569,587 | 1,063,735 |
| Totals | 250,446 | 1,267,498 | 285,000 | 29,415 | 2,942,867 | 4,775,226 |

## Remuneration of key management personnel of the Company (continued)

*Table 3: Remuneration for the year ended 31 December 2016*

| | Short Term | | | Post-employment Benefit | Share Based Payment | |
|---|---|---|---|---|---|---|
| | Directors Fees $ | Salary and Consulting Fees $ | Bonus $ | Superannuation Contribution $ | Equity settled option $ | Total $ |
| **Non – executive directors** | | | | | | |
| Gordon Galt | 20,000 | - | - | - | - | 20,000 |
| Staffan Ever | 5,202 | - | - | 494 | - | 5,696 |
| Michael Davies | - | - | - | - | - | - |
| Sub–total non–executive directors | 25,202 | - | - | 494 | - | 25,696 |
| **Executive directors** | | | | | | |
| Richard Rossiter | 60,000 | 210,000 | - | 5,700 | - | 275,700 |
| Theo Renard | 40,000 | 136,700 | - | 3,800 | - | 180,500 |
| Sub–total executive directors | 100,000 | 346,700 | - | 9,500 | - | 456,200 |
| **General Management** | | | | | | |
| Eva Armila | - | 105,405 | - | - | - | 105,405 |
| Sub–total General Management | - | 105,405 | - | - | - | 105,405 |
| Totals | 125,202 | 452,105 | - | 9,994 | - | 587,301 |

*Table 4: Compensation shares: Granted and vested during the year ended 31 December 2017*

| | | Terms and Conditions for each Grant | | | | | | Vested | |
|---|---|---|---|---|---|---|---|---|---|
| | Granted No. | Grant Date | Fair Value per Share at Grant Date $ | Exercise Price per Share $ | Expiry Date | First Exercise Date | Last Exercise Date | No. | % |
| **Directors** | | | | | | | | | |
| Glen Lewis | 1,000,000 | 31-May-17 | 0.475 | 0.615 | 31-May-23 | 31-May-18 | 7-Jun-23 | 1,000,000 | 100% |
| Richard Rossiter | 1,000,000 | 10-Feb-17 | 0.475 | 0.615 | 10-Feb-23 | 10-Feb-18 | 15-Feb-23 | 1,000,000 | 100% |
| Theo Renard | 1,000,000 | 10-Feb-17 | 0.475 | 0.615 | 10-Feb-23 | 10-Feb-18 | 15-Feb-23 | 1,000,000 | 100% |
| Staffan Ever | 1,000,000 | 31-May-17 | 0.475 | 0.615 | 31-May-23 | 31-May-18 | 7-Jun-23 | 1,000,000 | 100% |
| James Beecher | 1,000,000 | 31-May-17 | 0.475 | 0.615 | 31-May-23 | 31-May-18 | 7-Jun-23 | 1,000,000 | 100% |
| Peter Briggs | 1,000,000 | 31-May-17 | 0.475 | 0.615 | 31-May-23 | 31-May-18 | 7-Jun-23 | 1,000,000 | 100% |
| **Total** | **6,000,000** | **-** | **-** | **-** | **-** | **-** | **-** | **6,000,000** | **-** |

Note: against each employee share grant there is a non interest bearing no recourse loan with a six year term. Amount of each loan is the number of shares multiplied by the exercise price per share.

*Table 5: Compensation options: Granted and vested during the year ended 31 December 2017*

| | | Terms and Conditions for each Grant | | | | | | Vested | |
|---|---|---|---|---|---|---|---|---|---|
| | Granted No. | Grant Date | Fair Value per Share at Grant Date $ | Exercise Price per Share $ | Expiry Date | First Exercise Date | Last Exercise Date | No. | % |
| Eva Armila | 200,000 | 10-Feb-17 | 0.475 | 0.615 | 10-Feb-23 | 10-Feb-18 | 15-Feb-23 | 200,000 | 100% |
| **Total** | **200,000** | | | | | | | **200,000** | |

## Remuneration of key management personnel of the Company (continued)

*Table 6: Compensation shares: Granted and vested during the year ended 31 December 2016*

| | | Terms and Conditions for each Grant | | | | | | Vested | |
|---|---|---|---|---|---|---|---|---|---|
| | Granted No. | Grant Date | Fair Value per Share at Grant Date $ | Exercise Price per Share $ | Expiry Date | First Exercise Date | Last Exercise Date | No. | % |
| Key Management Personnel | - | - | - | - | - | - | - | - | - |
| **Total** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

*Table 7: Compensation options: Granted and vested during the year ended 31 December 2016*

| | | Terms and Conditions for each Grant | | | | | | Vested | |
|---|---|---|---|---|---|---|---|---|---|
| | Granted No. | Grant Date | Fair Value per Share at Grant Date $ | Exercise Price per Share $ | Expiry Date | First Exercise Date | Last Exercise Date | No. | % |
| Key Management Personnel | - | - | - | - | - | - | - | - | - |
| **Total** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

*Table 8: Shares granted as part of remuneration during the year ended 31 December 2017*

| | Number of shares granted during the year | Value of shares granted during the year $ | Value of shares exercised during the year $ | Value of shares lapsed during the year $ | Total value of shares granted, exercised and lapsed during the year $ | % Remuneration consisting of shares for the year |
|---|---|---|---|---|---|---|
| Glen Lewis | 1,000,000 | 474,656 | - | - | 474,656 | 62% |
| Peter Briggs | 1,000,000 | 474,656 | - | - | 474,656 | 56% |
| Richard Rossiter | 1,000,000 | 474,656 | - | - | 474,656 | 53% |
| Theo Renard | 1,000,000 | 474,656 | - | - | 474,656 | 57% |
| Staffan Ever | 1,000,000 | 474,656 | - | - | 474,656 | 88% |
| James Beecher | 1,000,000 | 474,656 | - | - | 474,656 | 90% |

Note: Shares issued under employee share plan are treated as in substance options.

Note: against each employee share grant there is a non interest bearing no recourse loan with a six year term. Amount of each loan is the number of shares multiplied by the exercise price per share. The shares issued have therefore been treated and valued as options.

*Table 9: Shares granted as part of remuneration during the year ended 31 December 2016*

| | No. of shares granted during the year | Value of shares granted during the year $ | Value of shares lapsed during the year $ | Total value of shares granted, exercised and lapsed during the year $ | % Remuneration consisting of shares for the year |
|---|---|---|---|---|---|
| Key management personnel | - | - | - | - | - |

## Remuneration of key management personnel of the Company (continued)

***Table 10: Options granted as part of remuneration for the year ended 31 December 2017***

| | No. of options granted during the year | Value of options granted during the year | Value of options exercised during the year | Value of options lapsed during the year | Total value of options granted, exercised and lapsed during the year | Remuneration consisting of options for the year % |
|---|---|---|---|---|---|---|
| Eva Armila | 200,000 | 94,931 | - | | 94,931 | 45% |
| **Total** | **200,000** | **94,931** | **-** | | **94,931** | |

***Table 11: Options granted as part of remuneration for the year ended 31 December 2016***

| | No. of shares granted during the year | Value of shares granted during the year $ | Value of shares lapsed during the year $ | Total value of shares granted, exercised and lapsed during the year $ | % Remuneration consisting of shares for the year |
|---|---|---|---|---|---|
| Key management personnel | - | - | - | - | - |

There were no alterations to the terms and conditions of options and shares granted as remuneration during the year. There were no cancellations of employee share and option plan shares and options during the year. There were no forfeitures during the year.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors.

**Gordon Galt**
**Chairman**

**29 March 2018**

**RSM Australia Partners**

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## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Realm Resources Limited for the year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

RSM

**RSM AUSTRALIA PARTNERS**

GNS

**G N Sherwood**
Partner

Sydney, NSW
Dated: 29 March 2018



**THE POWER OF BEING UNDERSTOOD**
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## Corporate governance statement

Realm Resources Limited ("the Company") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. During the 2017 financial year ("Reporting period") the Board re-reviewed aspects of its governance practices. Some of these policies and procedures are summarised in this statement.

Commensurate with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("Principles & Recommendations"), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and reason for the adoption of its own practice, in compliance with the "if not, why not" regime.

Further information about the Company's corporate governance practices including the relevant information on the Company's charters, code of conduct and other policies and procedures is set out on the Company's website at www.realmresources.com.au.

### "If Not, Why Not" Disclosure

During the Company's Reporting period the Company has followed each of the Principles and Recommendations other than in relation to the matters specified below.

**Principle 3**

***Recommendation 3.3:*** Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.

***Notification of Departure:*** The Company has not yet established objectives for achieving gender diversity.

This policy is being examined.

### Other

**Skills, experience, expertise and term of office of each director**

A profile of each director containing their skills, experience and expertise is set out in the directors' report.

**Assurances to the board**
The Board has received assurance from management that the Company's management of its material business risks are effective. Further, the managing director (or equivalent) and the Chief Financial Officer (or equivalent) have provided a declaration in accordance with section 295A of the *Corporations Act 2001* and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risk.

**Identification of independent directors and the company's materiality thresholds**
In considering the independence of directors, the Board refers to its Policy on Assessing the Independence of Directors (available on the Company's website).

## Other (continued)

### Identification of independent directors and the company's materiality thresholds (continued)

The Board has agreed on the following guidelines for assessing the materiality of matters, as set out in the Company's Board Charter (available on the Company's website):

- Balance sheet items are material if they have a value of more than 10% of pro-forma net asset;
- Profit and loss items are material if they will have an impact on the current year operating result of 10% or more;
- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, they could affect the Company's rights to its assets, if accumulated they would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 10% or more on balance sheet or profit and loss items, or they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%; and
- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests, contain or trigger change of control provisions, they are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

The independent director of the company is Mr James Beecher.

### Statement concerning availability of Independent Professional Advice

To assist directors with independent judgement, it is the Board's Policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval for incurring such expense from the Chair, the Company will pay the reasonable expenses associated with obtaining such advice.

### Confirmation whether performance Evaluation of the Board and its members have taken place and how conducted

During the Reporting period an evaluation of the performance of the Board, its committees and individual directors was carried out.

During the Reporting period a performance evaluation for senior executives was not carried out. A performance review will be performed during the next Reporting period.

### Existence and terms of any schemes for retirement benefits for non-executive directors

There are no termination or retirement benefits for non-executive directors (other than for superannuation).

## Consolidated statement of profit or loss and other comprehensive income

| | Notes | 2017 ($'000) | 2016 ($'000) |
|---|---|---|---|
| Revenue from continuing operation | 6(a) | 344,975 | 111,513 |
| Cost of sales | 6(b) | (110,419) | (39,402) |
| **Gross profit** | | 234,556 | 72,111 |
| Other income | | 1,085 | 46 |
| Royalties | | (35,721) | (10,866) |
| Impairment | | - | (5,765) |
| Depreciation and amortisation | | (6,049) | (2,820) |
| Distribution and selling costs | | (38,704) | (12,800) |
| Administrative expenses | | (12,880) | (3,783) |
| Other expenses | | (16,366) | (1,226) |
| Finance costs | | (17,377) | (15,928) |
| **Profit from continuing operations before income tax** | 6(c) | 108,544 | 18,969 |
| Income tax (expense)/benefit | 7 | (5,684) | 889 |
| **Profit after income tax expense from continuing operation** | | **102,860** | **19,858** |
| **Profit from discontinued operations before income tax** | 26 | 240 | 30 |
| Income tax (expense)/benefit | | - | (122) |
| **Profit after income tax expense from discontinued operation** | | 240 | **(92)** |
| **Profit after income tax for the year** | | **103,100** | **19,766** |
| **Profit for the year attributable to:** | | | |
| Owners of Realm Resources Limited | | 103,030 | 19,704 |
| Non-controlling interest | | 70 | 62 |
| | | **103,100** | **19,766** |
| **Other comprehensive (loss)/income** | | | |
| Exchange differences on translation of foreign operations | | (1,038) | 151 |
| **Total comprehensive income for the year** | | **102,062** | **19,917** |
| Total comprehensive income for the year is attributable to: | | | |
| Owners of the parent | | 101,992 | 19,855 |
| Non-controlling interests | | 70 | 62 |
| | | **102,062** | **19,917** |

## Consolidated statement of profit or loss and other comprehensive income (continued)

| | Notes | 2017 ($'000) | 2016 ($'000) |
|---|---|---|---|
| **Total other comprehensive income for the year is attributable to:** | | | |
| Continuing operations | | (1,038) | 151 |
| Discontinued operations | | - | - |
| Total other comprehensive income | | (1,038) | 151 |
| Total profit after income tax for the year attributable to: | | | |
| Continuing operations | | 102,860 | 19,858 |
| Discontinued operations | | 240 | (92) |
| Profit after income tax for the year | | 103,100 | 19,766 |
| **Total comprehensive income for the year** | | **102,062** | **19,917** |
| **Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:** | | | |
| Basic earnings per share (cents) | 8 | 42.25 | 8.42 |
| Diluted earnings per share (cents) | 8 | 42.22 | 8.42 |
| **Earnings per share for profit from discontinued operations attributable to the ordinary equity holders of the company:** | | | |
| Basic earnings per share (cents) | 8 | 0.10 | (0.04) |
| Diluted earnings per share (cents) | 8 | 0.10 | (0.04) |
| **Earnings per share for profit attributable to the ordinary equity holders of the company:** | | | |
| Basic earnings per share (cents) | 8 | 42.35 | 8.38 |
| Diluted earnings per share (cents) | 8 | 42.32 | 8.38 |

*The above statement of profit or loss should be read in conjunction with the accompanying notes.*

## Consolidated statement of financial position

| | Notes | 31 Dec 2017 ($'000) | 31 Dec 2016 ($'000) |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | 64,853 | 69,160 |
| Trade and other receivables | 10 | 29,630 | 19,076 |
| Inventories | 11 | 31,630 | 25,644 |
| Current tax assets | | 295 | 234 |
| Assets classified as held-for-sale | 26 | 2,533 | - |
| **Total current assets** | | **128,941** | **114,114** |
| **Non-current assets** | | | |
| Trade and other receivables | 12 | 3,235 | 1,546 |
| Available for sale financial assets | 13 | 743 | 121 |
| Property, plant and equipment | 14 | 86,650 | 63,129 |
| Deferred tax assets | 7(c) | 26,013 | 995 |
| Exploration and evaluation | 15 | 5,927 | 7,006 |
| **Total non-current assets** | | **122,568** | **72,797** |
| **TOTAL ASSETS** | | **251,509** | **186,911** |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 16 | 44,104 | 38,940 |
| Income tax payable | 7 | 25,909 | - |
| Provisions | 18 | 8,298 | 16,414 |
| Liabilities associated with assets held for sale | 26 | 306 | - |
| Borrowings | 17 | 1,302 | 48,667 |
| **Total current liabilities** | | **79,919** | **104,021** |
| | | | |
| **Non-Current liabilities** | | | |
| Trade and other payables | 16 | 15,610 | 21,480 |
| Provisions | 18 | 16,108 | 28,038 |
| **Total non-current liabilities** | | **31,718** | **49,518** |
| **TOTAL LIABILITIES** | | **111,637** | **153,539** |
| | | | |
| **NET ASSETS** | | **139,872** | **33,372** |
| **Capital and reserves** | | | |
| Contributed equity | 19 | 46,315 | 46,315 |
| Retained earnings (accumulated losses) | 20(a) | 90,939 | (12,091) |
| Reserves | 20(b) | 2,223 | (1,177) |
| **Attributable to owners of Realm Resources Limited** | | **139,477** | **33,047** |
| **Non-controlling interests** | | 395 | 325 |
| **TOTAL EQUITY** | | **139,872** | **33,372** |

*The above statement of financial position should be read in conjunction with the accompanying notes.*

## Consolidated statement of changes in equity

| | Attributable to Members of Realm Resources Limited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Ordinary Shares ($'000) | Option Reserve ($'000) | Employee Equity Benefits Reserve ($'000) | Foreign Currency Translation Reserve ($'000) | Accumulated Losses ($'000) | Total Equity ($'000) | Attributable to non-controlling Interest ($'000) | Total Equity ($'000) |
| **Balance as at 1 January 2016** | 46,315 | 366 | - | (1,694) | (31,795) | 13,192 | 307 | 13,499 |
| Profit for the year | - | - | - | - | 19,704 | 19,704 | 62 | 19,766 |
| Other comprehensive income | - | | - | 151 | - | 151 | - | 151 |
| **Total comprehensive income profit for the year** | - | - | - | 151 | 19,704 | 19,855 | 62 | 19,917 |
| **Transactions with owners in their capacity as owners**: | | | | | | | | |
| Other | - | - | - | - | - | - | (44) | (44) |
| **Balance as at 31 December 2016** | 46,315 | 366 | - | (1,543) | (12,091) | 33,047 | 325 | 33,372 |
| Profit for the year | - | - | - | - | 103,030 | 103,030 | 70 | 103,100 |
| Other comprehensive income | - | - | - | (1,038) | - | (1,038) | - | (1,038) |
| **Total comprehensive income (loss) for the year** | - | - | - | (1,038) | 103,030 | 101,992 | 70 | 102,062 |
| **Transactions with owners in their capacity as owners:** | | | | | | | | |
| Employee share schemes | - | 95 | 4,343 | - | - | 4,438 | - | 4,438 |
| **Balance as at 31 December 2017** | 46,315 | 461 | 4,343 | (2,581) | 90,939 | 139,477 | 395 | 139,872 |

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

## Consolidated statement of cash flows

| | Notes | 2017 ($'000) | 2016 ($'000) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | **340,188** | 113,406 |
| Payments to suppliers and employees (inclusive of GST) | | **(245,090)** | (61,575) |
| Interest received | | **389** | 12 |
| Finance charges | | **(10,570)** | (187) |
| Transaction costs relating to acquisition of subsidiary | | **-** | (3,072) |
| Income tax (payments) receipts | | **(4,769)** | (119) |
| **Net cash flows from operating activities** | 21 | **80,148** | 48,465 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(31,687)** | (282) |
| Acquisition of subsidies - net of cash acquired | 25(a) | **-** | (18,992) |
| **Net cash flows used in investing activities** | | **(31,687)** | (19,274) |
| **Cash flows from financing activities** | | | |
| Loan made | | **(1,114)** | 151 |
| Proceeds from borrowings | | **-** | 47,660 |
| Repayment of borrowings | | **(47,592)** | - |
| Payment of finance costs on facility arrangements | | **-** | (9,590) |
| **Net cash flows(used in)/from financing activities** | | **(48,706)** | 38,221 |
| Net (decrease)/increase in cash and cash equivalents held | | **(245)** | 67,412 |
| Effects of exchange rate changes on cash and cash equivalents | | **(3,516)** | 1,474 |
| Cash and cash equivalents at the beginning of year | | 69,160 | 333 |
| **Less cash opening cash balance of discontinued operations** | | **(546)** | (59) |
| **Cash and cash equivalents at end of year** | | **64,853** | 69,160 |

Cashflows of discontinued operations 26(b).

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

# Notes to the Financial Statements

## 1. Corporate Information

The financial report of Realm Resources Limited ("Realm" or "the Company") for the year ended 31 December 2017 was authorised for issue in accordance with a resolution of the directors on 28 March 2018. The directors have the power to amend and reissue the financial report.

The Company is limited by shares and incorporated in Australia and its shares are listed on the Australian Securities Exchange.

The nature of the operations and principal activities of the Company are described in the directors' report.

## 2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Realm Resources Limited and its subsidiaries.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Realm Resources Limited is a for-profit entity for the purposes of preparing the financial statements.

The financial report is presented in Australian dollars.

*(i) Compliance with IFRS*

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

*(ii) Historical Cost Convention*

The financial statements have also been prepared under the historical cost basis, as modified by the revaluation of assets and liabilities acquired as part of a business combination.

*(iii) New and amended standards adopted by the Group*

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

## 2. Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

*(i) AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses*

The consolidated entity has adopted AASB 2016-1 from 1 January 2017. The amendments to AASB 112 'Income Taxes' clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.

*(ii) AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107*

The consolidated entity has adopted AASB 2016-2 from 1 January 2017. The amendments to AASB 107 'Statement of Cash Flows' require the disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

*(iii) AASB 2017-2 Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle*

The consolidated entity has adopted AASB 2017-2 from 1 January 2017. The amendments to AASB 12 'Disclosure of Interests in Other Entities' clarify that the disclosure requirements of AASB 12 (other than the requirements for summarised information for subsidiaries, joint ventures and associates) apply to an entity's interests in other entities that are classified as held for sale, held for distribution to owners in their capacity as owners, or discontinued operations in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations'.

*(iv) New accounting standards and interpretations not yet mandatory or early adopt*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group’s assessment of the impact of these new standards and interpretations is that they will result in no significant changes to the amounts recognised or matters disclosed in the financial report as listed below:

*AASB 9 Financial Instruments*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

## 2. Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

*AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue.

For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the Group.

## 2. Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

*(vi) New accounting standards and interpretations (continued)*

*AASB 16 Leases*

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs.

Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 January 2019 but the impact of its adoption is yet to be assessed by the Group.

### (b) Principles of consolidation

*(i) Subsidiaries*

The consolidated financial statements comprise the financial statements of Realm Resources Limited ("Company" or "Parent entity") as at 31 December 2017 and the results, assets and liabilities of all subsidiaries. Realm Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of profit or loss and other comprehensive income from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

The financial statements of all subsidiaries are prepared for the same accounting period as the parent company, using consistent accounting policies.

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

## 2. Summary of significant accounting policies (continued)

### (b) Principles of consolidation (continued)

*(i) Subsidiaries (continued)*

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

The method of accounting used to account for business combinations by the Group (refer to note 25).

Investments in subsidiaries held by Realm are accounted for at cost in the separate financial statements of the parent entity less any impairment charges.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

*(ii) Joint arrangements*

Under AASB 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Realm Resources Limited has joint operations with Foxleigh Coal Pty Ltd.

Foxleigh Coal Pty Ltd (recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

The Group's 70% proportionate interest in the assets, liabilities and expenses of the Foxleigh Joint Venture operation have been incorporated in the financial statements under the appropriate headings. The Group's interest in the Foxleigh Joint Venture is held both directly (30%) and indirectly via its 66.67% interest in CAML Resources Ply Ltd. CAML Resources Pty Ltd holds a 60% in the Foxleigh Joint Venture resulting in the Group's total indirect interest of 40%.
Foxleigh Management Pty Ltd has been contracted by the Group and other participants of the Joint Venture to manage, supervise and conduct the operations of the Foxleigh Joint Venture. As operator, Foxleigh Management Pty Ltd enters into transactions (including employment and supply agreements) on behalf of the Foxleigh Joint Venture. All transactions entered into by Foxleigh Management Pty Ltd for the benefit of the Foxleigh Joint Venture are accounted for in the books of the Foxleigh Joint Venture.

Foxleigh Services Pty Ltd is an employment company which enters into transactions of employment on behalf of the Foxleigh Joint Venture. All transactions entered into by Foxleigh Services Pty Ltd for the benefit of the Foxleigh Joint Venture are accounted for in the books of the Foxleigh Joint Venture.

*Sales company*

Foxleigh Sales & Marketing Pty Ltd acts as the sales agent for the Group and the other Joint Venture participants. The company proportionally consolidates 70% of the assets, liabilities, revenue and expenses of Foxleigh Sales & Marketing Pty Ltd.

## 2. Summary of significant accounting policies (continued)

### (b) Principles of consolidation (continued)

*(ii) Joint arrangements (continued)*

*Reimbursement of the costs of the operator of the joint arrangement*

When Middlemount South Pty Ltd, acting as an operator or manager of a joint arrangement, receives reimbursement of direct costs recharged to the joint arrangement, such recharges represent reimbursements of costs that the operator incurred as an agent for the joint arrangement and therefore have no effect on profit or loss. When the Group charges a management fee (based on a fixed percentage of total costs incurred for the year) to cover other general costs incurred in carrying out the activities on behalf of the joint arrangement, it is not acting as an agent. Therefore, the general overhead expenses and the management fee are recognised in the statement of profit or loss and other comprehensive income as an expense and income, respectively.

### (c) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises;

- the fair values of the assets transferred:
- the liabilities incurred to the former owners of the acquired business;
- the fair value of any asset or liability resulting from a contingent consideration arrangement; and
- the fair value of any pre-existing equity interest in the subsidiary.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred, the amount of any non-controlling interest in the acquired entity,
- acquisition-date fair value of any previous equity interest in the acquiree entity

over the fair value of the Group’s share of the net identifiable assets acquired is recorded as mining assets.

If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

## 2. Summary of significant accounting policies (continued)

### (c) Business combinations (continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

If the business combination is achieved in stages, the acquisition date carrying values of the acquirers previously held equity interest in the acquire is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

### (d) Foreign currency translation

*(i) Functional and presentation currency*

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

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates 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 consolidated income statement, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on non-monetary items, such as equities held at fair value through profit or toss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale financial assets, are included in the fair value reserve in equity.

*(iii) Group companies*

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

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

## 2. Summary of significant accounting policies (continued)

### (d) Foreign currency translation (continued)

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

### (e) Exploration and evaluation

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

- the rights to tenure of the area of interest are current; and
- at least one of the following conditions is also met:
  - the exploration and evaluation expenditures are expected to be recouped 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 at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years. Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

### (f) Rehabilitation and restoration

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailing dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred by the development of the mine. Over time the discounted liability is increased for the change in present value based on discount rates that reflect current market assessments and the risks specific to the liability.

## 2. Summary of significant accounting policies (continued)

### (f) Rehabilitation and restoration (continued)

The periodic unwinding of the discount is recognised in profit or losses a finance cost. Additional, disturbances or changes in rehabilitation costs will be recognised as additions or changes to the corresponding assets and rehabilitation liability when they occur.

A current and non-current balance with respect to the provision for restoration and rehabilitation is disclosed, with current portion representing the estimated rehabilitation and restoration work to be undertaken in the coming year.

### (g) Deferred stripping costs

When waste removal activities improve access to ore extracted in the current period, the costs of production stripping are charged to profit or loss. Where production stripping activity produces access to ore in future periods the associated costs of waste removal are capitalised within Property, plant and equipment as deferred development. Components are specific volumes of a mine's ore body that are determined by reference to the Life of Mine plan.

All amounts capitalised in respect of waste removal are depreciated over the remaining life of mine as assessed at the reporting date. There are no amounts capitalised in the periods under review.

### (h) Operating segments

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive management team.

### (i) Cash and cash equivalents

For the purposes of presentation in the statement of cashflows, cash and cash equivalents include cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### (j) Trade and other receivables

Trade receivables, which generally have 25 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Other receivables are recognised at amortised cost, less any provision for impairment.

### (k) Inventories

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price including the transfer from equity of gains and losses on qualifying cash flow hedges of purchases of raw materials, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials. Volume discounts and rebates are included in determining the cost of purchase.

## 2. Summary of significant accounting policies (continued)

### (k) Inventories (continued)

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

*(i) Coal stockpiles*

Costs, including an appropriate portion of fixed and variable overhead expenses (including depreciation and amortisation), are assigned to inventory on hand on the basis of a 12-month average cost of production.

*(ii) Spare parts and consumables*

Inventories of consumable supplies and spare parts expected to be used in production are valued at weighted average cost. Cost represents the purchase price and other costs incurred in the normal course of operations in bringing the inventories to their present location and condition. Obsolete or damaged inventories are valued at net realisable value. A regular and ongoing review is undertaken to establish the extent of surplus items, and a provision is made for any potential loss on their disposal. Insurance and capital spare parts are capitalised and depreciated over the same remaining life as the equipment with which they are associated.

Major capital spare parts are capitalised and depreciated over the same remaining life as the equipment with which they are associated.

### (l) Investments and other financial assets

*(i) Classification*

The group classifies its financial assets in the following categories:
Financial assets at fair value through profit or loss,

- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

*(ii) Reclassification*

The group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

## 2. Summary of significant accounting policies (continued)

### (l) Investments and other financial assets (continued)

*(iii) Recognition and de-recognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership. When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

*(iv) Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for ‘financial assets at fair value through profit or loss’ – in profit or loss within other income or other expenses;
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security are recognised in profit or loss and other changes in the carrying amount are recognised in other comprehensive income; and
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in profit or loss as part of revenue from continuing operations when the Group’s right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/(losses). Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognised in the statement of profit or loss as part of revenue from continuing operations. Details on how the fair value of financial instruments is determined are disclosed in note 13.

*(v) Impairment*

The Group assesses at the end of each report period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

## 2. Summary of significant accounting policies (continued)

### (l) Investments and other financial assets (continued)

*Assets carried at amortised cost*

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

*Assets classified as available-for-sale*

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

### (m) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Land and buildings are measured at cost, less accumulated depreciation on buildings and less any impairment losses recognised after the date of revaluation.

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.
Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Land – not depreciated
- Buildings – over 20 years
- Plant and equipment – over 5 years
- Other plant and equipment – over 6 years
- Motor vehicles – over 5 years
- Computer equipment – over 3 years
- Computer software – over 2 years
- Office furniture and equipment – 6 years

## 2. Summary of significant accounting policies (continued)

### (m) Plant and equipment (continued)

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

*Derecognition*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

### (n) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability. The Group has no finance leases.

### (o) Trade and other payables

Trade payables and other payables are carried at amortised cost due to their short term nature and they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

### (p) Employee benefits

*(i) Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

*(ii) Other long-term employee benefit obligations*

To the extent the provision for long service leave is not expected to be settled within 12 months, the provision is recognised as a non-current provision in the consolidated balance sheet. The provision for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash flows.

Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in the consolidated income statement.

## 2. Summary of significant accounting policies (continued)

### (p) Employee benefits (continued)

The obligations are presented as current liabilities in the consolidated balance sheet If the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

*(iii) Industry long service leave fund*

Under the Coal Mining Industry (Long Service Leave Funding) Act 1992, the Group is required to make contributions to the Coal Mining Industry Long Service Leave Scheme (Long Service Leave Fund) for long service leave payments to employees under the terms of various coal mining industry awards.

Where appropriate, a corresponding entitlement to reimbursement from the Long Service Leave Fund has also been recognised.

*(iv) Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

### (q) Borrowings

Borrowings are initially recognised at fair values, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any differences between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowing using the effective interest method.

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

### (r) Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Other borrowing costs are expensed in the period in which they are incurred.

## 2. Summary of significant accounting policies (continued)

### (s) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation, where appropriate. The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations. Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

### (t) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### (u) Share-based payment transactions

*Equity settled transactions*

The Group provides benefits to its employees (including key management personnel and consultants) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There are currently two plans in place to provide these benefits:

- the Option Plan (OP), which provides benefits to directors, senior executives and consultants; and
- the Share Plan (SP), which provides benefits to directors, senior executives and consultants.

The cost of these equity-settled transactions with persons is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black Scholes model.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Realm Resources (market conditions) if applicable. Non-market vesting conditions are included in assumptions about the number of options that are expected to be exercisable. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant persons become fully entitled to the award (the vesting date).

## 2. Summary of significant accounting policies (continued)

### (u) Share-based payment transactions (continued)

At each subsequent reporting date until vesting, the cumulative charge to profit or loss is the product of:

(i) The grant date fair value of the award;

(ii) The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and

(iii) The expired portion of the vesting period.

The charge to profit or loss for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

### (v) Issued equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (w) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

*(i) Rendering of services*

Revenue from the toll treatment of aluminum dross is recognised by reference to the stage of completion of a contract or contracts in progress at balance date or at the time of completion of the contract and billing to the customer.

## 2. Summary of significant accounting policies (continued)

### (w) Revenue recognition (continued)

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract which is determined by a set quotation with the customer. As the contracts are reasonably short, there is only a small amount outstanding at balance date, as such the level of judgment required is minimal.

When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

*(ii) Sales of products*

Revenue from sale of products is recognized when persuasive evidence exits, usually in the form od executed sales agreement, indicating that there has been a transfer of risks and rewards of ownership to the customer. The quantity and quality of the products have been determined with reasonable accuracy, the price can be reliably estimated and collectability reasonably assured.

*(iii) Interest revenue*

Revenue is recognised as interest accrues using the effective interest method.

*(iv) Management fee income*

Management fee income is recognised as revenue when the right to receive payment is established.

### (x) Maintenance and repairs

Plant of the Group is required to be overhauled on a regular basis. This is managed as part of an ongoing major cyclical maintenance program.

The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated in accordance with note 2(m) . Other routine operating maintenance, repair costs and minor renewals are also charged as expenses as incurred.

### (y) Royalties

Royalties and other mining imposts are accrued and charged against earnings when the liability from production or sale of the mineral crystallises other than royalties payables to the vendor of Foxleigh mine which are treated as contingent consideration and accounted for based on management's best estimate of the expected future cashflows. Refer to note 25(a)(ii) for details.

### (z) Income tax and other taxes

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

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

## 2. Summary of significant accounting policies (continued)

### (z) Income tax and other taxes (continued)

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

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale. Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

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

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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 at the date.

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

*Other taxes*

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable

- Receivables and payables, which are stated with the amount of GST included

## 2. Summary of significant accounting policies (continued)

### (z) Income tax and other taxes (continued)

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### (aa) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the Parent, adjusted to exclude any costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the Parent divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

### (bb) Leases

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

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 28). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease. Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

The Group did not have any finance leases at reporting date.

### (cc) Impairment of non- financial assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash flows from other assets or Groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## 2. Summary of significant accounting policies (continued)

### (dd) Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 27.

### (ee) Discontinued operations

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income. Additional information in this regard is disclosed in Note 26.

### (ff) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

### (gg) Non-current assets or disposal groups classified as held for sale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

## 2. Summary of significant accounting policies (continued)

### (gg) Non-current assets or disposal groups classified as held for sale (continued)

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

### (hh) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The consolidated entity has recognised its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate classifications.

### (ii) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

### (jj) Rounding of amounts

The company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the ‘rounding off’ of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

## 3. Critical estimates and judgements

The preparation of financial statements requires the use of accounting estimates which will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies. This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong.

Detailed information about each of these estimates and judgements is included in notes to the financial statements with information about the basis of calculation for each affected line item in the financial statements.

*Estimates and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below or in the related accounting policy note 2 . The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

### (a) Reserves and resources

Reserves and mineral resource estimates are estimates of the amount of coal that can be economically and legally extracted from the Group's mining properties. Such reserves and mineral resource estimates and changes to these may impact the Group's reported financial position and results, in the following way:

- The carrying value of exploration and evaluation assets may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charges in the statement of profit or loss and other comprehensive income may change where such charges are determined using the UoP method, or where the useful life of the related assets change;
- Provisions for rehabilitation and environmental provisions may change where reserve estimate changes affect expectations about when such activities will occur and the associated cost of these activities; and
- The contingent consideration payable for the acquisition of the Foxleigh mine will change based on the expected future production and estimated reserves; and
- The recognition and carrying value of deferred income tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

## 3. Critical estimates and judgements (continued)

### (a) Reserves and resources (continued)

The Group estimates its reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the ore body and suitable production techniques and recovery rates. Such an analysis requires complex geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs, along with geological assumptions and judgements made in estimating Life of Mine (LoM).

The Group estimates and reports reserves and mineral resources in line with the principles contained in the JORC Code 2012. The JORC Code requires the use of reasonable investment assumptions, including:

- Future production estimates, which include proved and probable reserves, resource estimates and committed expansions;
- Expected future commodity prices, based on current market prices, forward prices and the Group's assessment of the long-term average price; and
- Future cash costs of production, capital expenditure and rehabilitation obligations

Consequently, management will form a view of forecast sales prices based on current and long-term historical average price trends. For example, if current prices remain above long-term historical averages for an extended period of time, management may assume that lower prices will prevail in the future. As a result, those lower prices would be used to estimate reserves and mineral resources under the JORC Code. Lower price assumptions generally result in lower estimates of reserves. As the economic assumptions used may change and as additional geological information is produced during the operation of a mine, estimates of reserves and mineral resources may change. The life of mine has been estimated at 12.5 years at the acquisition date (August 2016).

### (b) Rehabilitation and restoration

The provisions for rehabilitation costs are based on estimated future costs using information available at the reporting date. To the extent the actual costs differ from these estimates, adjustments will be recorded and the income statement and balance sheet may be impacted.

The ultimate rehabilitation costs are uncertain, and cost estimates can vary in response to many factors, including estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates, and changes in discount rates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. Therefore, significant estimates and assumptions are made in determining the provision for mine rehabilitation. As a result, there could be significant adjustments to the provisions established which would affect future financial result. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required.

### (c) Fair value measurement

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

## 3. Critical estimates and judgements (continued)

### (c) Fair value measurement (continued)

When the fair values of non-financial assets/CGUs need to be determined, for impairment testing purposes, fair value is measured using valuation techniques including the DCF model.

### (d) Impairment of exploration and evaluation expenditure

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been identified, the directors are of the continued belief that such expenditure should not be written off since limited exploration and evaluation has been conducted to date and further exploration and evaluation activities in these areas is intended and feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at cost at the end of the reporting period.

### (e) Accounting for acquisition of the Foxleigh Mine

Judgment is required to determine if control exists from acquiring 70% controlling interest in Foxleigh Mine. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Group's assessment whether or not it controls an investee requires judgement based on facts and circumstance. Generally, the presumption is power and control exist with majority voting rights. Management assessed that unanimous agreement is required for all decisions affecting exposure to and rights to variable returns and MMS alone cannot exert power hence considered accounting for Joint Arrangements as outlined below.

Judgement is also required to determine when the Group has joint control, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements relate to the operating and capital decisions of the arrangement, such as: the approval the capital expenditure programme for each year, and appointing, remunerating and terminating the key management personnel of, or service providers to, the joint arrangement. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. Refer to Note 2(b)(ii), 2(c)and 25 for more details.

Judgement is also required to classify a joint arrangement as either a joint operation or joint venture. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, it considers:

- The structure of the joint arrangement – whether it is structured through a separate vehicle
- When the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
  - the legal form of the separate vehicle;
  - the terms of the contractual arrangement; and
  - other facts and circumstances (when relevant).

This assessment often requires significant judgement, and a different conclusion on joint control and also whether the arrangement is a Joint Operation or a Joint Venture, may materially impact the accounting.

The Group has a joint arrangement which is structured through a separate vehicle, Foxleigh Coal Pty Ltd. This structure and the terms of the contractual arrangement indicate that the Group has rights to the assets and obligations for the liabilities. The conclusion was that the arrangement was a Joint Operation.

## 3. Critical estimates and judgements (continued)

### (f) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences where management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the future years together with future tax planning strategies.

### (g) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black Scholes model, with the assumptions detailed in Note 24. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

### (h) Estimation of useful lives of mining and other assets

The estimation of the useful lives of mining and other assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and JORC reports and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Exploration and mining assets have been amortised based on Life of Mine of 12.5 years at the acquisition date (August 2016).

### (i) Employee Share Plan Options Valuation

The Company issued 91,500,000 shares and 2,000,000 options to key management personnel in the period under review as disclosed in Note 3 (b). Non-recourse loans were extended to the participants in the share plan. The shares issued under the Share Plan may not be transferred or otherwise dealt with, and will not be quoted on ASX, until any loan in respect of the shares has been repaid and a period of 12 months (in relation to one third of the shares offered), 24 months (in relation to one third of the shares offered), 36 months (in relation to the remaining one third of the shares offered) has passed from the date of issue. It has been determined by Key Management that shares issued with non-recourse loans would be treated as options and consequently they have been valued as such, and expensed in the year they were issued given there were no performance hurdles. There is significant judgement in relation to the assumptions used in the Black Scholes Option pricing models. Judgement is required with regards to the fair value of the shares at the issue date, the market volatility, the expected exercise period, and a number of other inputs into the models.

## 4. Financial risk management

### (i) Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

The Group's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by the executive directors.

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk that are not designated in cash flow hedges:

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 64,853 | 69,160 |
| Trade and other receivables | 29,630 | 18,897 |
| Available for sale financial assets | 743 | 121 |
| Total | 95,226 | 88,178 |
| | | |
| **Financial liabilities** | | |
| Borrowings | 1,302 | 48,667 |
| Trade and other payables | 58,711 | 60,420 |
| Total | 60,013 | 109,087 |

### (ii) Market risk

*(i) Interest rate risk*

| | Interest Rate Risk Impact on Post Tax Profit/Equity | |
|---|---|---|
| | +1% (100 basis pts) | (0.5)% (50 basis pts) |
| 31 December 2017 | 448 | (224) |
| 31 December 2016 | 968 | (234) |

The movements in profit are due to higher/lower interest returns from variable rate cash balances, and higher/lower interest on borrowings. The sensitivity increases and decreases in interest rate have been selected as this is considered reasonable given the current level of interest rates and the volatility observed and market expectations for potential future movements.

## 4. Financial risk management (continued)

### (iii) Foreign currency risk

The Group's exposure to foreign currency risk at the end of the reporting period, experienced in Australia dollars, is as follows:

| | 31 December 2017 | | | 31 December 2016 | | |
|---|---|---|---|---|---|---|
| | US$ | South African Rand | Indonesian Rupee | US$ | South African Rand | Indonesian Rupee |
| Cash and cash equivalents | 25,593 | 491 | - | 49,746 | 246 | - |
| Trade and other receivables | 13,529 | 449 | - | 6,630 | 379 | 41 |
| Available-for-sale financial assets | - | 743 | - | - | 121 | - |
| Exploration and evaluation assets | 5,927 | - | - | 7,070 | - | - |
| Trade and other payables | - | 272 | - | - | 713 | 11 |
| Borrowings | - | 1,302 | - | - | 1,623 | 542 |

As shown above, the Group is primarily exposed to US/$ exchange rates. The sensitivity of profit or loss changes arises mainly from US dollar receivables and US cash at bank accounts held by the Group at reporting date. Additionally, exploration assets in PT Katingan Ria are denominated in US dollar which is subject to changes in foreign exchange movements.

The Group has operations in South Africa and the key transaction denominated in South African Rand of ZAR10,660,653, can be affected significantly by movements in the A$/ZAR exchange rates. The amounts translated into Australia Dollars are set out in note 17. The exposure in the loans receivable has been mitigated as a full provision for impairment was recognised at 31 December 2015.

In addition, the Group has operations in Indonesia, a subsidiary in Cayman (the financial currency for the Cayman subsidiary is United States Dollars) and subsidiaries in Singapore (the financial currency for the Singapore subsidiaries is Singapore Dollars). However, income and expenses and assets and liabilities in Indonesian Rupiah are not material to the Group.

| | Foreign exchange risk Impact on Post Tax Profit / Equity ($'000) | | | |
|---|---|---|---|---|
| | **+10% USD** | **(10%) USD** | **+10% ZAR** | **(10%) ZAR** |
| 31 December 2017 | (6,704) | 5,339 | (10) | 12 |
| 31 December 2016 | (5,414) | 6,617 | 118 | 109 |

The sensitivity increases and decreases in exchange rate have been selected as this is considered reasonable given the current level of exchange rates and the volatility observed and market expectations for potential future movements.

## 4. Financial risk management (continued)

### (iv) Price risk

The Group is exposed to equity securities price risk. This arises from an investment held by the Group and classified in the statement of financial position as available-for-sale. Price risk is monitored by the Chief Financial Officer on an ongoing basis. The Group has one investment classed as available-for-sale and it is publicly listed on the Johannesburg Stock Exchange.

At 31 December 2017, had the price of equity securities increased/decreased by 10%, with all other receivables remaining constant post-tax profit and equity would have been impacted as follows:

| | Post-tax profit higher / lower) | | Total equity higher / lower) | |
|---|---|---|---|---|
| | **2017 ($'000)** | **2016 ($'000)** | **2017 ($'000)** | **2016 ($'000)** |
| Increase 10% | 15 | 12 | 15 | 12 |
| Decrease 10% | (15) | (12) | (15) | (12) |

### (v) Commodity risk

Commodity price risk relates to the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities. As at reporting date commodity prices are better principally in Coal, however the Group is considering implementing strategies to protect itself from fluctuations in the future.

The policy of the consolidated entity is to sell coal at contract prices and at spot price and it has not entered into any hedging contracts. The consolidated entity's revenues were exposed to fluctuation in the price of this commodity. If the average receivable price of coal of US$136/t (2016: US$107/t) for the financial year had increased/decreased by 10% the change in the profit before income tax for the consolidated group would have been an increase /decrease of $34,000,000 (2016: $11,500,000).

The consolidated entity is exposed to commodity price risk arising from coal stock held as inventory.

If there was a 10% increase or decrease in market price of coal, the net realisable value of inventory on hand would increase/(decrease) by $5,000,000 (2016: $4,400,000). As coal and other metals on hand are held at cost there would be no impact on profit or loss.

### (vi) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note).

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

## 4. Financial risk management (continued)

### (vii) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, loans, finance leases and committed available credit lines. The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial liabilities. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 31 December 2017. Refer to note 17 for unused borrowing facilities.

The remaining contractual maturities of the Group's financial liabilities are:

| As at 31 December 2017 | 0 to 3 months ($'000) | 3 to 12 months ($'000) | More than 12 months ($'000) | Total ($'000) |
|---|---|---|---|---|
| Trade and other payables | 38,234 | 5,870 | 15,610 | 59,714 |
| Borrowings | 1,302 | - | - | 1,302 |
| Total Financial Liabilities | 39,536 | 5,870 | 15,610 | 61,016 |

| As at 31 December 2016 | 0 to 3 months ($'000) | 3 to 12 months ($'000) | More than 12 months ($'000) | Total ($'000) |
|---|---|---|---|---|
| Trade and other payables | 38,940 | - | 21,480 | 60,420 |
| Borrowings | - | 48,667 | - | 48,667 |
| Total Financial Liabilities | 38,940 | 48,667 | 21,480 | 109,087 |

## 5. Segment Information

### (a) Description of segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the geographical location of the segment; and
- any external regulatory requirements.

Performance is measured based on segment profit after income tax as included in the internal financial reports.

The Group has included the following operating segments:

(i) Australia - Foxleigh Coal Mine is an open cut operation producing benchmark quality, LV PCI coal for the export market;

## 5. Segment information (continued)

### (a) Description of segments (continued)

(ii) Indonesia - PT Katingan Ria is a thermal coal project (Realm 51%) ideally suited to supply proposed power stations in the region;

(iii) South Africa - Alumicor, which toll treats aluminium dross; Masedi Platinum (Proprietary) Limited and Nkwe Platinum (Scarlet) (Proprietary) Limited, which hold platinum resource tenements. During the year the Board decided to actively pursue negotiations and expressions of interest to sell Alumicor. In the current reporting period Alumicor operations and results were not separately reviewed by the Board hence not included in the segment information below. See note 26(b) for the financial information on this segment.

### (b) Segment information provided to the chief operating decision makers

The segment information provided to the directors for the reportable segments for the year ended 31 December 2017 is as follows:

| Year ending ended 31 Dec 2017 | Australia ($'000) | Indonesia ($'000) | Unallocated ($'000) | Total ($'000) |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales to external customers | 344,975 | - | - | 344,975 |
| Other revenue | 1,085 | - | - | 1,085 |
| Total segment revenue | 346,060 | - | - | 346,060 |
| **Result** | | | | |
| Segment results before finance costs and income tax | 126,540 | (57) | (562) | 125,921 |
| Finance costs | (17,377) | - | - | (17,377) |
| Income tax (expense)/benefit | (5,684) | - | - | (5,684) |
| Net profit/(loss) after tax for period | 103,479 | (57) | (562) | 102,860 |
| Assets and liabilities | | | | |
| Segment assets | 245,582 | 5,927 | - | 251,509 |
| Segment liabilities | 111,123 | 514 | - | 111,637 |
| Depreciation | 6,044 | 5 | - | 6,049 |

## 5. Segment information (continued)

### (b) Segment information provided to the chief operating decision makers (continued)

The segment information provided to the executive directors for the reportable segments for the year ended 31 December 2016 is as follows:

| Year ending ended 31 Dec 2016 | South Africa ($'000) | Australia ($'000) | Indonesia ($'000) | Unallocated ($'000) | Total ($'000) |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Sales to external customers | 4,070 | 111,484 | - | - | 115,554 |
| Other revenue | 1 | - | - | 54 | 55 |
| Total segment revenue | 4,071 | 111,484 | - | 54 | 115,609 |
| **Result** | | | | | |
| Segment results before finance costs and income tax | 30 | 38,052 | 45 | (1,666) | 36,461 |
| Finance costs | (8) | (16,004) | - | 84 | (15,928) |
| Income tax (expense)/benefit | 121 | (890) | 2 | - | (767) |
| Net profit/(loss) after tax for period | 143 | 21,158 | 47 | (1,582) | 19,766 |
| Assets and liabilities | | | | | |
| Segment assets | 3,080 | 174,568 | 9,063 | - | 186,911 |
| Segment liabilities | 2,101 | 150,885 | 553 | - | 153,539 |
| Depreciation | 378 | 2,534 | 1 | - | 2,913 |

## 6. Revenue and expenditure from continuing operations

### (a) Revenue from continuing operations

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Coal | 344,975 | 111,513 |
| Aluminium | - | - |
| | 344,975 | 111,513 |

### (b) Amount included in cost of sales

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Stock movement | (7,817) | 3,346 |
| Contractor costs | 45,414 | 7,651 |
| Materials | 8,924 | 15,137 |
| Wages | 21,898 | 15,640 |
| Rehabilitation provision/(release) | (21,024) | 5,086 |

## 6. Revenue and expenditure from continuing operations (continued)

### (c) Other items included in profit or loss

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Restructuring cost | 8,918 | - |
| Finance cost | 6,703 | 2,083 |
| Foreign exchange gain or loss | 7,752 | 2,499 |
| Share based payments expenses | 4,348 | - |
| Superannuation | 1,164 | 895 |
| Rental expenses | 108 | 74 |

## 7. Income Tax

### (a) Income tax expense

The major components of income tax expense are:

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| **Current income tax** | | |
| Current income tax charge | 28,805 | 122 |
| **Deferred income tax** | | |
| Tax adjustments in relation to prior year | 4,769 | - |
| Recognition of previously unrecognised deferred taxes | (36,638) | - |
| Relating to origination and reversal of temporary differences | 8,748 | (1,011) |
| **Income tax expense/(credit)** | 5,684 | (889) |

### (b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Total accounting profit before income tax | 108,544 | 18,969 |
| At the Parent entity's statutory income tax rate of 30% (2016: 30%) | 32,563 | 5,691 |
| Tax effect of amounts which are not deductible (payable) in calculating taxable income: | | |
| Share based payments | - | (88) |
| Tax adjustments in relation to prior year | 4,769 | - |
| Non-deductible expenses | 4,990 | 684 |
| Impairment of loans not recognised as a deferred tax asset | - | 155 |
| Tax losses recognised in relation to prior years | (36,638) | - |
| Tax losses not recognised as a deferred tax asset | - | (7,331) |
| **Income tax expense** | 5,684 | (889) |

## 7. Income Tax (continued)

### (b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate

The Group has not recognised a Deferred Tax Asset on the statement of financial position for the following items which are available for indefinite offset against future gains subject to continuing to meet relevant statutory tests:

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Tax losses* | 18,653 | 18,600 |

* Middlemount South Pty Ltd and Realm Resources Limited reported unused deferred tax losses of $7,090,000 and $11,563,310 respectively for the year ended 31 December 2017. No deferred tax assets have been raised on tax losses for these entities as the Group has considered that there will be no future taxable temporary differences available to be able to offset these losses in the next reporting period.

### (c) Deferred Taxes

The balance comprises temporary differences attributable to:

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Employee benefits | 1,034 | - |
| Stock obsolescence | 411 | - |
| Provisions | 6,205 | - |
| Other | 137 | - |
| Unrealised exchange losses | 198 | - |
| Property, plant and equipment | 18,028 | - |
| Unused tax losses | - | 995 |
| | **26,013** | 995 |

## 8. Earnings per share

The following reflects the income used in the basic and diluted earnings per share computations:

### (a) Earnings used in calculating earnings per share

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Net profit from continuing operations attributable to ordinary equity holders of the parent | 102,860 | 19,766 |

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| *Earnings per share for profit from discontinued operations* | | |
| Net profit/(loss) from discontinued operations attributable to ordinary equity holders of the parent | 240 | (92) |

| | 2017 Cents | 2016 Cents |
|---|---|---|
| Basic earnings per share | 0.10 | (0.04) |
| Diluted earnings per share | 0.10 | (0.04) |

### (b) Weighted average number of ordinary shares

| | 2017 (000) | 2016 (000) |
|---|---|---|
| Weighted average number of ordinary shares for basic earnings per share | 243,848 | 235,726 |
| Weighted average number of ordinary shares for diluted earnings per share | 244,026 | 235,726 |

On 19 July 2017, there was a 1 for 10 share consolidation. The consolidated opening balance has therefore been adjusted retrospectively.

## 9. Cash and cash equivalents

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Cash at bank and in hand | 64,507 | 69,040 |
| Short-term deposits | 346 | 120 |
| | 64,853 | 69,160 |

## 10. Current assets – trade and other receivables

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| **Current** | | |
| Trade and other receivables | 22,818 | 17,351 |
| Allowance for impairment losses[(i)] | - | - |
| Carrying amount of trade and other receivables | 22,818 | 17,351 |
| Prepayments and loans receivable | 6,812 | 1,725 |
| | 29,630 | 19,076 |

*(i) Allowance for impairment loss*

The majority of trade receivables are receivable in US dollars, are non-interest bearing and are generally on 21 day terms. An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

Balances within trade receivables do not contain impaired assets and are not past due. It is expected that the balances will be received when due.

## 11. Current assets – inventories

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Stores (at cost) | 8,015 | 10,375 |
| Allowance for impairment | (1,371) | (1,899) |
| | 6,644 | 8,476 |
| Coal in production and finished goods | 24,986 | 17,168 |
| Total inventories | 31,630 | 25,644 |

## 12. Non-current assets – trade and other receivables

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Loan to African Dune[(a)] | 1,031 | 1,031 |
| Provision for impairment | (1,031) | (1,031) |
| Loan to Tiespro[(b)] | 1,304 | 1,304 |
| Provision for impairment | (1,304) | (1,304) |
| Loan to Middlemount South Golf Club[(c)] | 1,485 | - |
| Other receivables and deposits | 1,750 | 1,546 |
| Carrying amount of non-current receivables | 3,235 | 1,546 |

## 12. Non-current assets – trade and other receivables (continued)

### (a) Loan to African Dune

Realm and African Dune have entered into a loan agreement whereby, during the year ended 31 December 2008, Realm lent African Dune ZAR8,000,000 at 11%. A Deed of Pledge and Cession has been signed as security for the current and future obligations of African Dune under the loan agreement. Under the terms of the Deed of Pledge and Cession, African Dune pledges its shares in Alumicor SA Holdings (Proprietary) Limited. The loan has been provided for in full.

### (b) Loan to Tiespro

Realm and Tiespro have entered into a loan agreement whereby, during the year ended 31 December 2012, Realm lent Tiespro ZAR10,660,653 at 9%. A Deed of Pledge and Cession has been signed as security for the current and future obligations of African Dune under the loan agreement. Under the terms of the Deed of Pledge and Cession, African Dune pledges its shares in Realm Resources (Proprietary) Limited. The loan has been provided for in full.

### (c) Loan to Middlemount Golf Club

Foxleigh Coal Pty Ltd and Middlemount South Golf Club ("MGC") entered into a funding agreement whereby during the year ended 31 December 2017 Foxleigh Coal lent MGC $A1,484,576. Total facility available for MGC will be $2m. The loan is interest-free and repayable at a variable amount depending on the clubs EBITDA. If the loan is not repaid by 31 December 2028, the loan will bear interest at 3% above 90-day bank rate.

***Fair values***

The directors believe that the fair values of non-current receivables of the Group are consistent with the carrying values. The fair values are based on cash flows discounted at a rate reflecting the current market rates.

***Foreign exchange and interest rate risk***

Detail regarding foreign exchange and interest rate risk exposure is disclosed in Note 4.

### (d) Credit risk

The maximum exposure to credit risk at the reporting date is the higher of the carrying value and fair value of each class of receivables.

## 13. Non-current assets – available-for-sale financial assets

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Listed equity securities | 715 | 93 |
| Investment in DBCT | 28 | 28 |
| | **743** | **121** |

At the reporting date, the Group held 45,000,000 Chrometco shares (CMO) listed on Johannesburg Stock Exchange at R0.15 totalling R6,750,000. This represents the Group's 16% holding in Chrometco. The investment is quoted on a listed exchange at fair value, hence no impairment considerations.

Listed equity securities are denominated in South African Rand. Refer to note 4 for an analysis of the sensitivity of available-for-sale financial assets to price and foreign exchange risk.

## 14. Non-current assets – property, plant and equipment

### Reconciliation of carrying amounts at the beginning and end of the period

| | Mining Assets and related infrastructure | Land & Buildings ($'000) | Plant & Equipment ($'000) | Motor Vehicles ($'000) | Computer Equipment ($'000) | Office Furniture & Equipment ($'000) | Total ($'000) |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2017** | | | | | | | |
| At 1 January 2017 net of accumulated depreciation | 60,198 | 613 | 2,262 | 37 | 6 | 13 | 63,129 |
| Additions | - | 12,318 | 18,715 | 75 | 1 | 30 | 31,139 |
| Disposals | - | - | - | - | - | - | - |
| Assets classified as non-current assets held for sale | - | (551) | (929) | (80) | (2) | (7) | (1,569) |
| Depreciation/amortisation charge for the year | (4,948) | (176) | (874) | (30) | (5) | (16) | (6,049) |
| At 31 December 2017 net of accumulated depreciation – net carrying amount | **55,250** | **12,204** | **19,174** | **2** | **-** | **20** | **86,650** |

| | | Land & Buildings ($'000) | Plant & Equipment ($'000) | Motor Vehicles ($'000) | Computer Equipment ($'000) | Office Furniture & Equipment ($'000) | Total ($'000) |
|---|---|---|---|---|---|---|---|
| **At 31 December 2017** | | | | | | | |
| Cost at fair value | 61,847 | 12,331 | 20,158 | 32 | 5 | 36 | 94,409 |
| Accumulated depreciation and impairment | (6,597) | (127) | (984) | (30) | (5) | (16) | (7,759) |
| | **55,250** | **12,204** | **19,174** | **2** | **-** | **20** | **86,650** |

**(a) Mining assets and related infrastructure**

The Foxleigh mining and exploration assets are considered one cash generating unit (CGU) for the purposes of impairment testing. At 31 December 2017, no indicators of impairment were identified on this CGU as a result of significant increase in coal prices. At 31 December 2017, excess consideration over fair value of net assets acquired has been attributed to "mining assets and related infrastructure" in the acquisition of Foxleigh. Management and the Board have considered the nature of the mining assets acquired in the Foxleigh transaction and have determined that the amounts provisionally classified as "exploration and evaluation expenditure" in intangible assets of $61,847,000 should be reclassified as "mining assets and related infrastructure". This was done retrospectively as the amounts reported in the previous year were provisional amounts.

## 14. Non-current assets – property, plant and equipment (continued)

| | Mining Assets and related infrastructure* | Land and Buildings ($'000) | Plant and equipment ($'000) | Motor vehicles ($'000) | Computer equipment ($'000) | Office furniture and equipment ($'000) | Total ($'000) |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2016** | | | | | | | |
| At 1 January 2016 net of accumulated depreciation | - | 602 | 707 | 29 | 6 | 10 | 1,354 |
| Additions | 61,847 | - | 304 | 20 | 4 | 13 | 62,188 |
| Acquisition – Foxleigh Mining capital works | - | - | 1,431 | - | - | - | 1,431 |
| Disposals | - | - | - | - | - | - | - |
| Exchange differences | - | 79 | 99 | 6 | 1 | 2 | 187 |
| Depreciation charge for the year | (1,649) | (68) | (279) | (18) | (5) | (12) | (2,031) |
| At 31 December 2016 net of accumulated depreciation- Net carrying amount | 60,198 | 613 | 2,262 | 37 | 6 | 13 | 63,129 |
| **At 31 December 2016** | | | | | | | |
| Cost at fair value | 61,847 | 1,313 | 4,305 | 305 | 41 | 73 | 67,884 |
| Accumulated depreciation and impairment | (1,649) | (700) | (2,043) | (268) | (35) | (60) | (4,755) |
| | 60,198 | 613 | 2,262 | 37 | 6 | 13 | 63,129 |

* These assets were provisionally reported as exploration and evaluation assets for the purposes of the Foxleigh acquisition. Having considered the nature of the assets they were reclassified as mining assets and related infrastructure and adjusted retrospectively as the original classification was provisionally reported as contemplated in *AASB 3 Business Combinations*.

## 15. Non-current assets – exploration and evaluation assets

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Cost of acquisition | 19,233 | 19,233 |
| Foreign exchange movement | (1,621) | (542) |
| Accumulated impairment losses | (11,685) | (11,685) |
| Carrying amount at year end | 5,927 | 7,006 |

At each reporting date, the Group assess whether there are indicators of impairment with respect to its mining assets. When indicators of impairment are identified, impairment testing is performed to determine their recoverable amount. If the carrying value of assets exceeds this recoverable amount, an impairment loss is charged to profit or loss with a corresponding decrease in the asset value.

### (a) Exploration assets

The recoverability of the carrying amount of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest. The CGU's are determined on a geographical basis, with the Australian exploration and mining assets and Indonesian and South African exploration assets as being separate CGU's. The Australian CGU has been described above in 14(a).

Exploration and evaluation assets consist of the exploration and evaluation assets acquired as part of the purchase of: 51% of the shares in PT Katingan Ria.

## 16. Trade and other payables

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| **Current** | | |
| Trade and other payables | 38,978 | 32,020 |
| Contingent consideration payable | 5,126 | 6,920 |
| Carrying amount of trade and other payable | 44,104 | 38,940 |
| | | |
| **Non-current** | | |
| Contingent consideration payable | 15,610 | 21,480 |

## 16. Trade and other payables (continued)

### (a) Fair value

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

### (b) Guarantees

Realm Resources Limited has a subordination agreement with Alumicor SA Holdings Proprietary Limited to guarantee its creditors.

As noted in note 17, bank guarantees held by the Group totalling AUD$64,000,000 as a requirement of mining leases held with the Queensland Government. The financial assurance requirement relates to rehabilitation obligations in respect of land disturbed. These are not considered as contingent liabilities as the obligation to incur rehabilitation costs have been fully provided for in note 18.

## 17. Borrowings

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| **Current** | | |
| Bridge loan[(a)] | - | 47,592 |
| Other borrowings[(b)] | 1,302 | 1,075 |
| | **1,302** | **48,667** |

### (a) Bridge loan

The Group had a $50m bridge facility with Taurus Resources Fund No. 2 with a term of 12 months, that expired on 29 August 2017. This facility had 2.05% arrangement fee and interest rate of 10% capitalised. The loan was unsecured and $48m drawn at the last reporting date. Upon expiry, this loan was repaid in full including finance costs.

In addition to above, the Group has a further US$98.5m Guarantee Facility with Taurus Mining Finance Fund, which includes a performance guarantee facility and a working capital facility secured over the assets of the Group. Of these facilities, US$48.8m has been drawn with total unused facility totalling $US49.7m. This facility expires on 31 January 2019.

### (b) Other loans

***Tiesro 176***

Included in other borrowings are amounts due to Tiespro 176 (Proprietary) Limited, a company incorporated in South Africa, of $1,302,114 (2016: $1,075,634). The loan is unsecured and is interest free.

## 17. Borrowings (continued)

### (b) Other loans (continued)

***Taurus Resources Fund No. 2***

Above loan was re-paid in prior periods, however it had 10,000,000 options attaching to it that were outstanding at the reporting date.

The following table lists the inputs into the Black-Scholes model used by management in estimating the fair value of the options:

| No. of Options | Grant Date Share Price $ | Exercise Price $ | Expected Volatility % | Option Life (Years) | Dividend Yield % | Risk-Free Interest Rate % | Weighted Average Share Price at Measurement Date $ |
|---|---|---|---|---|---|---|---|
| 100,000,000 | 0.018 | - | 75 | - | - | 2.85 | 365,650 |

An expense has been recorded in historical profit or loss, with a corresponding amount recorded in the option reserve (refer to note 20 during the year ended 31 December 2013). The expiry date for the options was 12 February 2018 and these were duly exercised on a post consolidation basis (10:1) totalling 10,000,000 shares at 50 cents for a value of $5m.

### (c) Fair values

The carrying amount of the Group's current and non-current borrowings approximates fair value.

### (d) Interest rate, foreign exchange and liquidity risk

Details regarding interest rate, foreign exchange and liquidity risk is disclosed in note 4.

## 18. Provisions

| | Employee Entitlements ($'000) | Environmental Rehabilitation ($'000) | Total ($'000) |
|---|---|---|---|
| At 1 January 2017 | 9,458 | 34,994 | 44,452 |
| Payments | - | (4,823) | (4,823) |
| Arising/(utilised) during the year | (5,734) | (16,193) | (21,927) |
| Unwinding of discount on provisions | - | 6,704 | 6,704 |
| At 31 December 2017 | 3,724 | 20,682 | 24,406 |
| | | | |
| Current | 3,724 | 4,574 | 8,298 |
| Non-current | - | 16,108 | 16,108 |
| | 3,724 | 20,682 | 24,406 |

## 18. Provisions (continued)

The provision for environmental rehabilitation is based on actual disturbances at 31 December 2017. The estimated costs to rehabilitate the disturbances as at that date were calculated in accordance with the Department of Environmental and Heritage Protection ("DEHP") Guidelines: *Financial assurance under the environmental protection Act 1994*. The timing of the expected rehabilitations was then estimated by the environmental management team, and the actual expected costs increased by an inflationary adjustment of 2.5% to quantify the expected future rehabilitation costs per year. These amounts were then discounted back at a rate of 11,96%.

## 19. Issued equity

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Ordinary shares[(a)] | 46,315 | 46,315 |

### (a) Ordinary shares

| | No. | No. |
|---|---|---|
| Issued and fully paid | 244,876,041 | 235,726,041 |

Note on 19 July 2017 there was a 1 for 10 consolidation of fully paid ordinary shares and options outstanding. The Consolidated opening number of shares has been adjusted retrospectively.

Fully paid ordinary shares carry one vote per share and carry the rights to dividends.

| | No. | $ |
|---|---|---|
| **Movement in ordinary shares on issue** | | |
| At 1 January | 235,726,041 | 46,314,806 |
| Shares issued under employee share plan | 9,150,000 | - |
| Rounding due to 1:10 consolidation of shares | 120 | - |
| At 31 December | 244,876,161 | 46,314,806 |

### (b) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

As the equity market is constantly changing, management may issue new shares to provide for future expansion and development activity.

The capital risk management policy remains unchanged from the 31 December 2016 Annual Report.

## 20. Retained earnings and reserves

### (a) Movements in retained earnings (accumulated losses)

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Balance 1 January | (12,091) | (31,795) |
| Net profit/(loss) attributable to owners of Realm Resources Ltd | 103,030 | 19,704 |
| | 90,939 | (12,091) |

### (b) Other reserves

| | Equity Benefits Reserve ($'000) | Foreign Currency Translation ($'000) | Options Reserve ($'000) | Total ($'000) |
|---|---|---|---|---|
| **At 31 December 2015** | - | (1,694) | 366 | (1,328) |
| Employee share options cancelled during the year | - | 151 | - | 151 |
| **At 31 December 2016** | - | (1,543) | 366 | (1,177) |
| Exchange difference on translation of foreign operations | - | (1,038) | - | (1,038) |
| Employee share scheme shares/options | 4,343 | - | 95 | 4,438 |
| **At 31 December 2017** | 4,343 | (2,581) | 461 | 2,223 |

### (c) Nature and purpose of reserves

*(i) Employee equity benefits reserve*

The employee equity benefits reserve is used to record the value of share based payments provided to persons, including Key Management Personnel and consultants, as part of their remuneration. Refer to note 23 for further details of these plans.

*(ii) Option reserve*

The option reserve is used to record the value of options issued to other parties during the year. Refer note 24 for further details.

*(iii) Foreign currency translation reserve*

The foreign exchange currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

## 21. Statement of cash flow reconciliation

**Reconciliation of net profit after tax to net cash flows from operations**

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Net profit | 102,861 | 19,766 |
| **Adjustments for:** | | |
| Other non-cash income | (502) | (2,753) |
| Amortisation and depreciation | 6,049 | 2,030 |
| Impairment exploration costs | - | 5,765 |
| Provisions | (20,046) | (37,965) |
| Unwinding interest on provisions | 6,704 | 15,938 |
| Share-based payments transactions | 4,438 | - |
| Transfer expense to WIP | (3,546) | - |
| Royalty fair value adjustment | (5,401) | - |
| **Changes in assets and liabilities** | | |
| (Increase)/decrease in inventories | (5,986) | 4,313 |
| (Increase)/decrease in trade and other receivables | (6,042) | (2,502) |
| (Increase)/decrease in current tax assets | 23 | 29 |
| (Increase)/decrease in deferred tax assets | (25,018) | (939) |
| (Increase)/decrease in trade and other payables | 706 | 44,783 |
| (Increase)/decrease in tax provision | 25,908 | - |
| Net cash from operating activities | 80,148 | 48,465 |

## 22. Related party transactions

### (a) Ultimate parent

Realm Resources Limited is the ultimate parent entity.

### (b) Subsidiaries

Interests in subsidiaries are set out in Note 25(b).

### (c) Key management personnel ("KMP")

Details of KMP, including remuneration paid, are included in Note 23.

## 22. Related party transactions (continued)

### (d) Other transactions with related parties

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| **Included in profit or loss** | | |
| Rental payment to related parties (Taurus Funds Management Pty Ltd) | 53 | 22 |
| Taurus Mining Finance Fund Royalty | 3,496 | 733 |
| Taurus Resources Fund No. 2 financing costs for debt (repaid in full in 2017) | 3,140 | - |
| Taurus Mining Finance Fund finance facility costs for bank guarantee facility | 7,220 | 4,287 |
| Consultancy fees paid to New Holland Capital, of which Gordon Galt and Mike Davies are directors | 420 | 55 |
| Square group of companies - Staffan Ever is a non-executive director of Realm and Managing Director of the square group of companies. The fees charged are for marketing services. | 3,644 | 1,087 |

Related party transactions are made on an arm's length basis both at normal market prices and on what the Board considers to be normal commercial terms.

## 23. Key management personnel

### (a) Compensation of key management personnel

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Short term employee benefits | 1,802,944 | 577,307 |
| Superannuation | 29,415 | 9,994 |
| Termination benefits | - | - |
| Share based payments | 2,942,867 | - |
| Total compensation | 4,775,226 | 587,301 |

Detailed remuneration disclosures are provided in the remuneration report on pages 15 to 21.

| 31 Dec 17 | Balance at beginning of period 1 Jan 17 | Granted as remuneration | Options exercised | Net change other # | Balance at end of period 31 Dec 17 | Vested at 31 Dec 17 | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Total | Exercisable | Not Exercisable |
| Eva Armila | - | 200,000 | - | 200,000 | 200,000 | 200,000 | - | 200,000 |

## 23. Key management personnel (continued)

### (b) Option holdings of key management personnel (consolidated)

| 31 Dec 16 | Balance at beginning of period 1 Jan 17 | Granted as remuneration | Options exercised | Net change other # | Balance at end of period 31 Dec 17 | Vested at 31 Dec 17 | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Total | Exercisable | Not Exercisable |
| | - | - | - | - | - | - | - | - |

### (c) Shareholdings of key management personnel (consolidated)

*Shares held in Realm Resources Limited*

| 31 Dec 17 | Balance at beginning of period 1 Jan 17 | Granted | On exercise of options | Net other change | Balance at end of period 31 Dec 17 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Gordon Galt | 150,000 | - | - | - | 150,000 |
| Glen Lewis(ii) | - | 1,000,000 | - | - | 1,000,000 |
| Richard Rossiter(i) | 75,000 | 1,000,000 | - | - | 1,075,000 |
| Theo Renard(i) | 545,000 | 1,000,000 | - | - | 1,545,000 |
| Staffan Ever | - | 1,000,000 | - | - | 1,000,000 |
| James Beecher | - | 1,000,000 | - | - | 1,000,000 |
| Peter Briggs | - | 1,000,000 | - | - | 1,000,000 |
| | 770,000 | 6,000,000 | - | - | 6,770,000 |
| **Other** | | | | | |
| Employees and consultants | - | 4,150,000 | - | - | 4,150,000 |

On 19 July 2017, there was a 1 for 10 share consolidation. The consolidated opening balance has therefore been adjusted retrospectively.

| 31 Dec 16 | Balance at beginning of period 1 Jan 16 | Granted | On exercise of options | Net other change | Balance at end of period 31 Dec 16 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Gordon Galt | 1,500,000 | | | | 1,500,000 |
| Richard Rossiter(ii) | 750,000 | - | - | - | 750,000 |
| Theo Renard(ii) | 5,450,000 | - | - | - | 5,450,000 |
| | 7,700,000 | - | - | - | 7,700,000 |

(i) Resigned as directors on 6 March 2017
(ii) Resigned as director on 8 September 2017

## 23. Key management personnel (continued)

### (c) Shareholdings of key management personnel (consolidated) (continued)

All equity transactions with KMP other than those arising from the exercise of remuneration shares and options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

## 24. Equity based benefit plans

### (a) Recognised share based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Expenses arising from equity – settled share – based payment transactions | 4,438 | - |
| Total expense arising from share-based payment transactions | 4,438 | - |

The share – based payment plans are described below. There have been no cancellations or modifications to the share plan during 2017. Refer subsequent events for post year end cancellations/share buy backs.

### (b) Types of share-based payment plans

*(i) Option Plan (OP)*

Share options may be granted to the directors, full time or part-time employees of, and consultants to, the Company. The granting of options is at the discretion of the directors. The options will be issued free of charge and the exercise price of options granted under the Option Plan will be determined at the discretion of the board at the time of making the invitation. In February 2017, 200,000 options were granted to acquire shares in the capital of company under the option plan with an expiry of 15 February 2023 and an exercise price of $0.615c.

*(ii) Share Plan (SP)*

Shares in the Company may be issued to directors, full time or part-time employees of, and consultants to, the Company. The issuing of shares is at the discretion of the directors. The issue price is at the discretion of the directors but may not be less than the weighted average price at which the Shares were traded on ASX during the 5 trading day period immediately before the date of issue of the shares. Non-recourse loans will be extended to the participants in the share plan.

The shares issued under the Share Plan may not be transferred or otherwise dealt with, and will not be quoted on ASX, until any loan in respect of the shares has been repaid and:

- a period of 12 months (in relation to one third of the shares offered),
- 24 months (in relation to one third of the shares offered), and
- 36 months (in relation to the one third of the shares offered) has passed from the date of issue.

## 24. Equity based benefit plans (continued)

### (c) Summaries of grants under OP and SP

The following table illustrates the number (No.) and weighted average exercise price (WAEP) of, and movements in, employee shares and options during the year:

| | 2017 No. | 2017 WAEP $ | 2016 No. | 2016 WAEP $ |
|---|---|---|---|---|
| **OP** | | | | |
| Outstanding at the beginning of the year | - | - | - | - |
| Granted during the year | 200,000 | 0.0615 | - | - |
| Cancelled during the year | - | - | - | - |
| Exercised during the year | - | - | - | - |
| Expired during the year | - | - | - | - |
| Outstanding at the end of the year | 200,000 | 0.0615 | - | - |
| Exercisable at the end of the year | - | | - | - |
| **SP** | | | | |
| Outstanding at the beginning of the year | - | - | - | - |
| Granted during the year | 9,150,000 | 0.0615 | - | - |
| Forfeited during the year | - | - | - | - |
| Exercised during the year | - | - | - | - |
| Cancelled during the year | - | - | - | - |
| Outstanding at the end of the year | 9,150,000 | 0.0615 | - | - |

### (d) Option pricing model: OP and SP

*Equity – settled transactions*

The fair value of the equity – settled share options granted under OP is estimated as at the date of grant using a Black Scholes option pricing model. Expected volatility is based on the historical share price volatility. The inputs used in the model requires significant judgement which has an impact on the fair value of the shares issued. The share issued in accordance with the share plan were accounted for as options on the basis the employees have non-recourse loans in this regard.

## 25. Business Combinations

### (a) Summary of acquisition: Foxleigh Operations – during the year ended 31 December 2016

On 29 August 2016, the Group acquired 99.9% of the share capital of Middlemount South Pty Ltd Group (MMS), a management company operating Foxleigh Coal Mine in Queensland. The Group acquired 70% of controlling interest in Foxleigh Mine for consideration of $46,819,629 and the payment of royalty in future periods pursuant to the Royalty deed. The acquisition has significantly increased the Group's market share in this industry and complements the Group's existing Coal Projects. Refer to note 3 significant accounting policies highlighting management's judgement and assessment for accounting for Foxleigh acquisition.

## 25. Business Combinations (continued)

### (a) Summary of acquisition: Foxleigh Operations – during the year ended 31 December 2016 (continued)

*(i) Acquisition date fair values*

The fair values of identifiable assets acquired and liabilities assumed of Foxleigh as at the date of acquisition were:

| | ($'000) |
|---|---|
| **Assets** | |
| Cash | 24,828 |
| Receivables | 17,649 |
| Inventories | 29,876 |
| Property, plant and equipment | 134 |
| Mining assets and related infrastructure | 61,847 |
| | 134,334 |
| **Liabilities** | |
| Trade and other payables | 12,464 |
| Employee entitlements | 11,856 |
| Provisions | 34,995 |
| | 59,315 |
| Total identifiable net assets at fair value | 75,020 |
| Purchase consideration* | 75,020 |

*The purchase consideration was not paid in full and this liability will be settled in the next reporting period and royalty will be settled over the Life of Mine as stipulated by the royalty deed.

The fair value of mining assets and related infrastructure includes the exploration licences and EPC's as at acquisition date. Total Coal Reserves for the Foxleigh mine had been estimated at 52.7Mt (29.2Mt Proved and 23.5Mt Probable) at the time of acquisition. The reserves and life of mine are being re-evaluated subsequent to the year end.

The fair value of provision for rehabilitation and restoration represents the fair value of total amounts required to restore the site at the end of the Mining operations. The Group used a discounted cash flow model to estimate the expected future cash flows of the mine, based on the life-of-mine plans. Expected future cash flows are based on estimates of future production and commodity prices, operating costs, and forecast capital expenditures using the life-of-mine plan as at the acquisition date. Note 3 to the financial statements outlines the assumptions and critical judgements made by management to determine fair value of these.

## 25. Business Combinations (continued)

### (a) Summary of acquisition: Foxleigh Operations – during the year ended 31 December 2016 (continued)

*(ii) Contingent Consideration on the acquisition of Foxleigh*

The contingent consideration arrangement requires the group to pay the former owners of Foxleigh Coal Pty Limited. Included in this contingent consideration is a Royalty payment for the years from 2016 to 2027, up to a maximum undiscounted aggregate amount of $75,000,000. The fair value of the contingent consideration arrangement of $20,740,000 (2016: 28,200,000) was estimated calculating the present value of expected cashflows. The estimates are based on a discount rate of 11.96% and average coal price achieved matrix as outlined below.

FCL will pay Anglo a semi-annual royalty ("Royalty Payment") on its 70% share of coal extracted and sold from the assets acquired for a period of 12.5 years. The Royalty Payments will be made based on the Average Coal Price Achieved ("ACPA") in each six-month royalty period based on the following scale:

- if ACPA is greater than A$105 per tonne then a payment of A$1.00 per tonne; or
- if ACPA is greater than A$115 per tonne then a payment of A$2.00 per tonne; or
- if ACPA is greater than A$130 per tonne then a payment of A$3.00 per tonne.

The liability is presented within trade and other payables in the balance sheet.

*(iii) Purchase Consideration – cash outflow*

| | **($'000)** |
|---|---|
| **Outflow of cash to acquire Foxleigh Operations, net of cash acquired** | |
| Cash consideration | 46,820 |
| Contingent consideration received | (3,000) |
| Sub-total | 43,820 |
| *Less: Balanced acquired* | |
| Cash | (24,828) |
| Net outflow of cash – investing activities | 18,992 |

## 25. Business combinations (continued)

### (b) Significant Investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(d).

| | Equity interest | | Investment Equity Holding | |
|---|---|---|---|---|
| **Name of entity** | **Country of incorporation** | **Class of shares** | **2017 %** | **2016 %** |
| Middlemount South Pty Limited | Australia | Ordinary | 99.9 | 99.9 |
| Foxleigh Coal Pty Limited* (Subsidiary of Middlemount South Pty Limited) | Australia | Ordinary | 100 | 100 |
| CAML Pty Limited(Subsidiary of Fox Coal Pty Limited) | Australia | Ordinary | 67.67 | 67.67 |
| Alumicor SA Holdings (Pty) Limited | South Africa | Ordinary | 74 | 74 |
| Alumicor Maritzburg (Pty) Ltd | South Africa | Ordinary | 74 | 74 |
| Alumicor Intellectual Property (Pty) Ltd | South Africa | Ordinary | 74 | 74 |
| Nduzi Real Estate Projects (Pty) Ltd | South Africa | Ordinary | 74 | 74 |
| Realm Resources (Pty) Limited | South Africa | Ordinary | 74 | 74 |
| Kalres Limited | Cayman Islands | Ordinary | 100 | 100 |
| PT Katingan Ria | Indonesia | Ordinary | 51 | 51 |
| Morning Star Holdings (Australia) Limited | Australia | Ordinary | 100 | 100 |
| Nkwe Platinum (Scarlet) Proprietary Limited | South Africa | Ordinary | 74 | 74 |
| Masedi Platinum (Proprietary) Limited | South Africa | Ordinary | 70.3 | 70.3 |
| Realm Resources Pte Ltd | Singapore | Ordinary | 100 | 100 |
| Kalres Pte Ltd | Singapore | Ordinary | 100 | 100 |

The proportion of ownership interest is equal to the proportion of voting power held for each of the subsidiaries listed above.

### (c) Interest in Foxleigh Jointly controlled operation

The Group's interest in the Foxleigh Joint Venture is held both directly (30%) and indirectly via its 66.67% interest in CAML Resources Ply Ltd. CAML Resources Ply Ltd holds a 60% in the Foxleigh Joint Venture resulting in the Group's total indirect interest of 40%.

The following entities are 100% owned by Foxleigh Coal Pty Limited:

- Foxleigh Management Services Pty Limited
- Foxleigh Services Pty Limited.

## 26. Discontinued operations

### (a) Description

On 14 November 2017, the group announced its intention to exit the Aluminium business and initiated a process to locate a buyer for its South African subsidiary, Alumicor. The associated assets and liabilities were consequently presented as held for sale in the 2017 financial statements.

The sale process is continuing.

### (b) Financial performance and cash flow information

The financial performance and cash flow information presented are for the 12 months ended 31 December 2017.

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Revenue | 4,225 | 4,041 |
| Operating expenses | (2,549) | (2,431) |
| **Gross profit** | **1,676** | **1,610** |
| Other income | 47 | 9 |
| Depreciation and amortisation | (109) | (93) |
| Administrative expenses | (1,374) | (1,496) |
| **Profit from discontinued operations before income tax** | **240** | **30** |
| Income tax (expense)/benefit | - | (122) |
| **Profit (loss) after income tax of discontinued operation** | **240** | **(92)** |
| Gain on sale of the subsidiary after income tax | - | - |
| **Profit from discontinued operation** | **240** | **(92)** |
| Changes in fair value of contingent receivable | - | - |
| Exchange differences on translation of discontinued operations | - | - |
| **Other comprehensive income from discontinued operations** | **-** | **-** |
| Net cash inflow from operating activities | 1,037 | 581 |
| Net cash inflow/(outflow) from investing activities | (586) | (289) |
| Net cash (outflow) from financing activities | (42) | (49) |
| **Net increase in cash generated by the subsidiary** | 409 | 243 |

### (c) Details of the sale of the subsidiary

At the reporting date the fair value of the consideration was not determined as the sale agreement is being finalised. The assets and liabilities directly associated with the subsidiary being sold has been recognised as assets held for sale (see note 26(d)).

## 26. Discontinued operations(continued)

### (d) Assets and liabilities of disposal group classified as held for sale

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 31 December 2017:

| | ($'000) |
|---|---|
| **Assets classified as held for sale** | |
| Cash | 546 |
| Receivables | 404 |
| Inventories | 14 |
| Property, plant and equipment | 1,569 |
| **Total assets of disposal group held for sale** | **2,533** |
| | |
| **Liabilities directly associated with assets classified as held for sale** | |
| Trade and other payables | **306** |
| **Total liabilities of disposal group held for sale** | **306** |

## 27. Parent entity disclosures

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Current assets | 907 | 390 |
| Total assets | 24,989 | 68,982 |
| Current liabilities | (195) | (47,492) |
| Total liabilities | (195) | (47,492) |
| Net assets | 24,794 | 21,490 |
| Contributed equity | 46,315 | 46,315 |
| Reserves | 4,803 | 366 |
| Accumulated loss | (26,324) | (25,191) |
| Total equity | 24,794 | 21,490 |
| Profit for the year | 1,134 | 105 |
| Other comprehensive income | - | - |
| Total comprehensive income | 1,134 | 105 |
| | | |
| **Parent Contingent Liabilities** | - | - |
| | | |
| **Parent Contractual Commitments for Acquisition of Property, Plant and Equipment** | - | - |

**Significant Accounting Policies**
The accounting policies of the parent entity are consistent with those of the consolidated entity.

Refer also note 16(b) for details of guarantees made.

## 28. Commitments

### (a) Leasing commitments

| | 2017 ($'000) | 2016 ($'000) |
|---|---|---|
| Less than one year | 492 | 497 |
| Later than one year but no later than 5 years | 1,795 | 1,890 |
| Later than 5 years | 6,465 | 6,795 |
| | 8,752 | 9,182 |

The group leases various offices and photocopiers under non-cancellable operating leases expiring in 3 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Included in the commitments above is $8,448,882 of mining rents.

### (b) Capital expenditure commitments

At 31 December 2017, the Group has capital expenditure commitments totalling approximately $19,125,000 all due to be spent within the next 12 months from the reporting date (2016: $20,478,000).

## 29. Events after the balance sheet date

On 8 January 2018, Mr Michael Rosengren was appointed as Managing Director of Realm Resources Limited and Mr Peter Briggs resigned as director of Middlemount South Pty Limited and its controlled entities.

On 9 February 2018, the intention of T2 Resources Fund Pty Ltd to make an unsolicited, conditional off market takeover offer to purchase all of the issued shares in Realm Resources Limited that it did not already own for $0.90 cash per share was lodged with ASX.

On 12 February 2018, Taurus Resources Fund No. 2 exercised 10,000,000 options for $5,000,000 at an aggregated exercise price of $0.50.

On 22 February 2018, 500,000 shares were issued at $0.87c per share under the Company's Directors and Employees Incentive Plan approved by shareholders on 31 March 2016.

On 27 February 2018, 2,116,666 shares were bought back at 61.5 cents and 250,000 shares were bought back at $1.015, being the result of employees and former employees no longer being entitled to the shares in accordance with the Realm Resources Limited Employee Share Plan.

On 14 March 2018 the bidder's statement was dispatched to Realm Shareholders by the Bidder in connection with its off-market takeover bid for all of the issued shares in Realm which it did not already own for $0.90 cash per share. This bidder's statement was amended by a supplementary bidder's statement dated 15 March 2018.

## 29. Events after the balance sheet date (continued)

A Target's Statement has been commissioned and an Independent Expert's and a Technical Expert's reports will be included within this Target's Statement. Investors are directed to the Technical Expert's report for a detailed review of Reserves and Resources at Foxleigh.

Other than above, no other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly effect:

(a) The Group's operations in future financial years, or

(b) The results of those operations in future financial years, or

The Group's state of affairs in future financial years.

## 30. Auditor's remuneration

The auditor of Realm Resources Limited is RSM Australia Partners.

| | 2017 ($) | 2016 ($) |
|---|---|---|
| **Amounts received or due and receivable by RSM Australia Partners for:** | | |
| • An audit or review of the financial report of the entity and any other entity in the consolidated Group – current year | 332,040 | 180,000 |
| • Other services in relation to the entity and any other entity in the consolidated Group - Tax compliance | 48,580 | 9,000 |
| • Other services in relation to the entity and any other entity in the consolidated Group - Tax advice | 33,110 | - |
| • Other non-assurance services in relation to the entity and any other entities in the consolidated Group – Independent Review, Due Diligence, Valuations etc. | 115,940 | - |
| | 529,670 | 189,000 |
| **Amounts received or due and receivable by other firms not affiliated with RSM Australia Partners – BDO South Africa Incorporated for:** | | |
| • An audit or review of the financial report by overseas BDO South Africa Incorporated firm | 45,000 | 43,968 |
| • Tax compliance | 6,500 | 4,269 |
| | 51,500 | 48,237 |
| **Amounts received or due and receivable by other firms not affiliated with RSM Australia Partners – CA Trust PAC:** | | |
| An audit of the financial report of Realm Resources Pte | 2,514 | 2,500 |
| An audit of the financial report of Kalres Pte | 1,990 | 2,000 |
| | 4,504 | 4,500 |

## Directors' Declaration

1. In the opinion of the directors:

   (a) The financial statements and notes and on pages 28 to 88 are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements*;* and

   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The notes to the financial statements include a statement of compliance with International Financial Reporting Standards.

3. The directors have been given the declarations by the managing director and chief financial officer for the year ended 31 December 2017 required by Section 295A of the *Corporations Act 2001*.

This declaration is in accordance with a resolution of the directors.

**Gordon Galt**
**Chairman**

**29 March 2018**

**On behalf of the board**

**RSM Australia Partners**

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**INDEPENDENT AUDITOR'S REPORT**

**TO THE MEMBERS OF**

**REALM RESOURCES LIMITED**

## Opinion

We have audited the financial report of Realm Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

## Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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



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RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

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**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th colspan="2">Provision for Mine Rehabilitation<br>Refer to Note 18 in the financial statements</th></tr>
<tr><td>As at 31 December 2017, the Group had a provision of $20.6m relating to the estimated future cost of rehabilitation and restoration of areas disturbed as a result of its mining operations.<br><br>The provision for mine rehabilitation was considered a key audit matter due to the materiality of the balance, the significant judgements and estimation uncertainty, and the complexity involved in the quantification of the liability.</td><td>Our audit procedures in relation to the provision for mine rehabilitation included the following:<br><br>• Obtaining a detailed understanding of the process involved in the determination of the site rehabilitation liability including discussions with the Environment & Community Superintendent.<br><br>• Obtaining the calculations for the Provision for Site Rehabilitation and verified the methodology used to determine the provision is in accordance with the AASB 137 Provisions, Contingent Liabilities and Contingent Assets, as well as the requirements of the Department of Environment and Heritage Protection (“DEHP”).<br><br>• Reviewing the key assumptions in the calculations and agreed them to external supporting evidence, submissions to the DEHP, or other internal documents supporting the assumptions used.<br><br>• Inspecting a Compliance Statement issued by an Independent Expert confirming the “Plan of Operation” had been prepared in accordance with the Environmental Protection Act.<br><br>• Assessed the appropriateness of the disclosures included in the Group financial statements in relation to the provision for site rehabilitation.</td></tr>
</table>

| ***Contingent Consideration Payable to the Vendor in the Foxleigh Transaction***<br>Refer to Note 16 in the financial statements | |
|---|---|
| The royalties payable is considered a key audit matter, due to the materiality of the balance, the significant judgements and estimation uncertainty, and the complexity involved in the quantification of the liability.<br><br>As part of the Foxleigh transaction, MMS is required to pay a royalty fee to Anglo relating to its 70% share of the Foxleigh mine based on coal quantity sold and average coal price achieved (ACPA) for 12.5 year period.<br><br>The quantification of the liability requires significant judgement in that it is subject to estimation uncertainty around the future PCI coal price, exchange rate, WACC, adopted saleable coal volume profile and coal price inflation. These estimates and assumptions are subject to risk and uncertainty.<br><br>Per AASB 3 Business Combinations, paragraph 23, contingent liabilities should be recognised by the acquirer as of the acquisition date if it is a present obligation that arises from past events and its fair value can be measured reliably. | Our audit procedures in relation to the royalties payable to Anglo included the following:<br><br>• Reviewed management's calculations and valuation methodology in respect of the royalty obligations and confirmed that the models were appropriate under the circumstances and consistent with our expectations.<br>• Obtained the royalty agreement and inspected that the valuation model had been determined in accordance with the key terms of the agreement.<br>• Reviewed the Weighted Average Cost of Capital Calculations and determined them to be appropriate under the circumstances.<br>• Review the assumptions with regards to the Life of the Mine, wastage, and expected future production and verified that the assumptions used in the model were consistent with external evidence to support them, and were consistent with existing production levels and mining data.<br>• Assessed the appropriateness of the disclosures included in the Group financial statements. |
| ***Share-based payment***<br>Refer to Note 24 in the financial statements | |
| During the financial year ended 31 December 2017, the company issued 91,500,000 shares and 2,000,000 options to key management personnel. Non-recourse loans were extended to the participants in the share plan. The shares have been issued free of charge with the exercise price of the options granted being determined at the discretion of the board at the time of making the invitation.<br><br>The accounting treatment of employee share loan plans is unusual and technically complex as whether the loan should be considered part of the potential share-based payment, with the entire arrangement treated as an option, or whether the loan should be accounted for separately as a financial asset.<br><br>Furthermore, the fair value measurement of the options is inherently complex and requires significant judgement to be made with regards to the assumptions used in the model as part of the option valuation process. | Our audit procedures in relation to share-based payment included the following:<br><br>• Obtained the Employee Share Plan and to obtain an understanding of the arrangement<br>• Inspect a sample of Letters of Invitation to apply for shares inspecting that the terms of the offer are consistent with the Employee Share Plan.<br>• Obtained the valuation reports from management' independent expert inspecting that that assumptions and inputs into the valuation model are consistent with the Employee Share Plans and Invitation Letters.<br>• Considered the competence, capabilities and objectivity of that expert as well as the appropriateness of that expert's work in relation to the valuations performed.<br>• Assessed the appropriateness of the disclosures with regards to the shares issued.<br><br>Inspected the journal entries and disclosures in relation the accounting treatment of the option and ensure that they have been accounted for in accordance with the Australian Accounting Standards. |

| ***Existence and Valuation of Inventory***<br>Refer to Note 11 in the financial statements | |
|---|---|
| The existence and valuation of inventory is considered a key audit matter, due to the materiality of the balance, the significant judgments and estimation uncertainty, and the complexity involved in the costing of coal inventory in a production environment. | Our audit procedures in relation to the existence and valuation of inventory included the following:<br>• Obtained a detailed understanding of the systems and processes in place with regards to the inventory valuation methodology, and the process to quantify inventory on hand at year end.<br>• Obtained the inventory valuation reports, daily production reports, independent surveyor's reports, and the related aerial photography of the inventory on hand at year end.<br>• Reviewed management's calculations in respect of the inventory valuations and concluded the costing methodology was in accordance with AASB 102 *Inventories,* and that the key assumptions were consistent with the past performance of the mine.<br>• Tested a sample of expenditure to supporting invoices or other documentation and confirmed the validity of the amounts recorded in the accounting records, and the fact that the costs incurred did in fact relate to the production of the coal.<br>• Tested through inspection that the carrying value of inventory at is various stages of productions was carried at less than its net realisable value. |

**Other Information**

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, 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.

**Responsibilities of the Directors for the Financial Report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/Pronouncements/Australian-Auditing-Standards/Auditors-Responsibilities.aspx. This description forms part of our auditor's report.

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*
We have audited the Remuneration Report included in pages 17 to 24 of the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of Realm Resources Limited, for the year ended 31 December 2017, complies with section 300A of the *Corporations Act 2001*.

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

RSM

**RSM AUSTRALIA PARTNERS**

GNS

**G N SHERWOOD**
Partner

Sydney, NSW
Dated: 29 March 2018

## ASX Additional Information

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 28 February 2018.

### (a) Substantial Holders

Substantial holders in the Company are set out below:

| Ordinary Shares | Fully Paid Shares | Percentage |
|---|---|---|
| Taurus Resources Fund No. 2 | 217,064,841 | 85.16 |

### (b) Distribution of equity securities

*(i) Ordinary share capital*

2,357,260,417 fully paid ordinary shares are held by 695 individual shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.

*(ii) Options*

10,000,000 exercisable at $0.05, was duly exercised on 12 February 2018. Options do not carry a vote.

The number of shareholders, by size of holding are:

| | Fully paid ordinary shares |
|---|---|
| 1-1,000 | 107,062 |
| 1,001-5,000 | 730,107 |
| 5,001-10,000 | 1,299,221 |
| 10,001-100,000 | 9,768,957 |
| 100,001 - and over | 232,970,814 |
| | 244,876,161 |

### (c) Twenty largest holders of quoted equity securities

| | Fully paid | |
|---|---|---|
| **Ordinary Shareholder** | **Number** | **Percentage** |
| JP Morgan Nominees Australia Limited | 212,314,280 | 83.5% |
| T2 Resources Fund Pty Limited | 4,750,561 | 1.9% |
| M Resources Pty Ltd | 2,886,830 | 1.1% |
| Nine One Four Pty Ltd (The Super Vida Fund A/C) | 2,115,000 | 0.8% |
| Mr Theo Noel Renard | 1,545,000 | 0.6% |
| Richard David Rossiter | 1,075,000 | 0.4% |
| Peter Graham Briggs | 1,000,000 | 0.4% |
| CFO Advisors Pty Ltd | 1,000,000 | 0.4% |
| Staffan Ever | 1,000,000 | 0.4% |
| Latimore Family Pty Ltd (Latimore Family Account) | 1,000,000 | 0.4% |
| Mr Andrew Martin Matheson | 962,525 | 0.4% |
| Mr Richard Alexander Lipton | 670,000 | 0.3% |
| Mr Glen Lewis | 623,567 | 0.2% |
| Coniston Group Ltd | 527,500 | 0.2% |
| Zero Nominees Pty Ltd | 502,929 | 0.2% |
| Mr Tod Mathews | 500,000 | 0.2% |
| Braeton Pty Limited (Braeton Super Fund A/C) | 460,853 | 0.2% |
| Jessel Limited | 434,870 | 0.2% |
| Payce Industries Pty Ltd | 431,671 | 0.2% |
| **Total Top 20 holders of Ordinary Fully paid shares** | **234,300,586** | **92.5%** |
| **Total Remaining Holders Balance** | **19,958,909** | **7.5%** |

### (d) Voting rights

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

### (e) Schedule of Tenements

Realm Resources Limited mineral tenement interest as at 31 December 2017:

| Project/location | Tenement | | Interest at the end of the year |
|---|---|---|---|
| Marikat District, Katingan Regency, Central Kalimantan Province, Indonesia | IUP Operasi Produksi No. 545/222/KPTS/VIII/2011<br>In Prinsip Izin Pinjam Pakai No. S.515/Menhut-VII/2012 | | 51% |
| Mpumalanga province, South Africa | Prospecting right renewal reference number MP 30/5/1/1/2/<br>1021 PR. | | 74% |

## (e) Schedule of Tenements (continued)

| Project/location | Tenement | | |
|---|---|---|---|
| Mpumalanga province, South Africa | Prospecting right renewal reference number MP 30/5/1/1/2/ 1028 PR. | | 74% |
| Mpumalanga province, South Africa | Prospecting right renewal reference number MP 30/5/1/1/2/ 1030 PR. | | 70.3% |
| Mpumalanga province, South Africa | Prospecting right renewal reference number MP 30/5/1/1/2/ 1020 PR. | | 74% |
| Mpumalanga province, South Africa | Prospecting right renewal reference number MP 30/5/1/1/2/ 958 PR. | | 74% |
| Mpumalanga province, South Africa | Prospecting right renewal reference number MP 30/5/1/1/2/ 1105 PR. | | 74% |
| Mpumalanga province, South Africa | Prospecting right renewal reference number MP 30/5/1/1/2/ 1029 PR. | | 74% |
| Mpumalanga province, South Africa | Prospecting right renewal reference number MP 30/5/1/1/2/ 1060 PR. | | 74% |
| Central Queensland Australia | ML 70171 | | 70% |
| Central Queensland Australia | ML 70309 | | 70% |
| Central Queensland Australia | ML 70310 | | 70% |
| Central Queensland Australia | ML 70429 | | 70% |
| Central Queensland Australia | ML 70430 | | 70% |
| Central Queensland Australia | ML 70431 | | 70% |
| Central Queensland Australia | ML 70470 | | 70% |
| Central Queensland Australia | EPC 855 | | 100% |
| Central Queensland Australia | EPC 1669 | | 100% |
| Central Queensland Australia | EPC 1139 | | 70% |

Further; Realm did not have any interest in any farm-in or farm-out agreements at the end of the period. Realm did not acquire or dispose of any farm-in or farm-out interests during the period