



ANNOUNCEMENT

14 March 2019

PHASE 1 OF THE MAKHADO PROJECT APPROVED

MC Mining Limited ("MC Mining" or the "Company") is pleased to announce the development of its flagship Makhado hard coking and thermal coal project ("Makhado Project" or "Makhado") through a phased approach. All numbers are in South African rand or United States dollars.

Key highlights

- Phase 1
 - Construction to commence in Q3 CY2019 if all conditions satisfied
 - nine-month construction period
 - commence mining at west pit producing ~3.0 million tonnes per annum ("Mtpa") of run-of-mine ("ROM") coal
 - ROM coal partially beneficiated prior to despatch to the modified Vele Colliery for processing
 - ~2.0Mtpa ROM coal (ex-discard) trucked to Vele Colliery
 - ROM coal processed at enhanced Vele plant
 - ~1.1Mtpa of saleable coal produced (at steady state):
 - ~0.54Mtpa of hard coking coal ("HCC")
 - ~0.57Mtpa of 5,500kcal thermal coal
 - hard coking and thermal coal trucked to Musina siding for rail to domestic and/or export customers
 - internal rate of return ("IRR") in excess of 45%
 - peak funding payback of less than 2.5 years
- Phase 2
 - Makhado Lite plan implemented as Phase 2 in circa FY2022
 - development and mining of east pit, Makhado processing plant and related infrastructure

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Non-executive directors Peter G. Cordin, Andrew D. Mifflin, Khomotso B. Mosehla, Thabo F. Mosololi, Shangren Ding, An Chee Sin, Brian He Zhen

Background

The Company effectively owns 69% of Baobab Mining & Exploration (Pty) Ltd ("**Baobab**"), the owner of the Makhado Project, the balance being and/or to be held by the Industrial Development Corporation of South Africa Limited ("**IDC**"), seven communities located in the vicinity of Makhado and a black industrialist. The development of Makhado will provide significant direct and indirect benefits to these communities located in one of the poorest areas of South Africa.

MC Mining previously announced the Makhado 'Lite' project plan, producing 4.0Mtpa of ROM coal yielding 1.6 to 1.8Mtpa of saleable product. The development of Makhado Lite was delayed for approximately one year mainly due to lack of access to two key properties where the east pit, processing and other infrastructure would be located. The impact of this delay results in, amongst other things, the repayment date for the existing IDC Loan occurring ahead of significant cashflows from Makhado Lite. Consequently, in parallel with pursuing various strategies to obtain access to the two properties, management assessed alternative project development plans, which included developing Makhado in phases by commencing mining on the west pit and processing through the existing Vele plant (Phase 1) and then progressing to the east pit (Phase 2).

Makhado Phase 1

Phase 1 entails:

- mining commencing on the west pit where a large diameter confirmatory drilling programme was completed in Q4 CY2018;
- utilising the existing but to be modified Vele processing plant, thereby reducing construction time and cost; and
- Using previously tested logistics infrastructure.

The development of Phase 1 fast-tracks the development of a second cash generating asset in the Group, reduces debt/equity funding requirements and significantly reduces execution risk.

The development of Phase 1 was conditionally approved by the Directors of MC Mining in March 2019 and the Company has commenced with the various work streams required to satisfy these conditions.

The conditions are:

Finalise thermal offtake	~ Q2 CY 2019
Finalise debt funding ~ \$20 million	~ Q2 CY 2019
Raise equity to repay IDC and contribute to Phase 1 funding ~ \$30 million	Q3 CY 2019

Phase 1 salient features

Phase 1 commences with the development of the Makhado west pit as well as modifications to the existing Vele Colliery processing plant. The drilling programme completed in Q4 CY2018 confirms the west pit's limit of oxidation at 17m below surface, indicating that the coal deeper than 17m has not oxidised. This is shallower than the previously modelled depth of 30m and translates into a lower strip ratio of 2.08m³/t over the nine-year life of the pit. The approximate 3.0Mtpa of ROM coal from the west pit will be mined by an independent mining contractor using a truck and shovel, modified terrace mining method. The ROM coal will be hauled to a crushing and screening plant consisting of a feeder breaker to crush the coal that is then scalped, removing the coarse parting and waste. The *circa* 2.0Mtpa of scalped ROM coal will be transported by road to the Vele Colliery for final processing.

The Vele plant modifications will facilitate the simultaneous production of HCC and a 5,500 kcal export quality thermal coal. The plant modifications consist of amongst others, a new fines circuit comprising of Reflux Classifier in series with the existing spiral plant, low density secondary wash plant and a froth flotation plant to capture the ultra-fine coal. The plant will be managed by independent processing experts to produce approximately 1.1Mtpa of saleable coal comprising 0.54Mtpa of HCC and 0.57Mtpa of thermal coal.

Construction at Makhado and Vele will occur at the same time and will take nine months to complete requiring peak funding of R460 million (\$33.5 million), including a 10% design contingency. The Phase 1 construction costs were assessed by DRA Global during a February 2019 FEED process, delivering a +/-10% accurate capital estimate, while operational costs were obtained from independent mining, processing and transport contractors, also during February 2019. The Phase 1 mining and processing will be outsourced to experienced third parties who have previously operated in South Africa and is expected to create approximately 650 permanent employment opportunities.

Offtake negotiations for thermal coal are well advanced. The Company is considering various debt/equity funding options with the existing IDC debt of R120 million (\$8.3 million), plus interest to

be accrued up to date of repayment and Phase 1 capital requirements resolved simultaneously through a composite funding plan.

Phase 1 generates significant cash flows and the project's IRR is in excess of 45% with a peak funding payback period of less than 2.5 years. In summary, the key features of Makhado Phase 1 are:

LOM – west pit only	9 years
ROM production	~3.0Mtpa
HCC production	~0.54Mtpa
Thermal coal production	~0.57Mtpa
HCC yield	~19%
Thermal coal yield	~20%
Construction period	9 months
Peak funding	R460m (\$33.5m)*
Capital expenditure	R400m (\$29.1m)*
IRR	>45%
Peak funding payback	<2.5 years

* assumes R13.75/\$

Makhado Phase 1 is designed to ensure continued scalability and:

1. is an organically developed second cash generator;
2. achieves the stated strategy of Group attaining self-sufficiency with an estimated peak funding payback period of <2.5 years;
3. delivers strong returns with significantly reduced execution risk;
4. expedites an accelerated time to market by at least one year compared to the original Makhado Lite, as:
 - no further confirmatory geotechnical drilling is required;
 - the Phase 1 FEED process is complete;
 - reduced mine related infrastructure required;
 - utilize existing plant at Vele; and
 - shorter construction period

5. facilitates the development of Phase 2 in *circa* FY2022.

David Brown, Chief Executive Officer of MCM, commented:

“The approval for the phased development reflects further advancement of Makhado and its ability to generate significant near-term value by positioning MC Mining to be able take advantage of positive future global coking coal prices due to limited supply. The use of the existing Vele processing plant reduces the project’s capital expenditure requirements and together with the completed FEED process, shortens the construction time while moderating execution risk. The Company is in advanced thermal coal offtake discussions with various parties and expects that the marketing and fundraising elements will be completed in early Q3 CY2019. The planned commencement of construction later in Q3 CY2019 also reduces the period for delivery of saleable coal to market and generates positive returns for shareholders in the near-term.

MC Mining remains committed to the sustainable development of the Makhado Project, recognising its potential to drive significant socio-economic transformation and seeking co-operation between mining, agriculture and heritage land uses.”

Authorised by

David Brown

Chief Executive Officer

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About MC Mining Limited:

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

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Regulatory

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