
RIO ZIM

RioZim Limited

Annual Report 2018

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# OVERVIEW

13% decline in gold production to 1.792 tonnes from 2.071 tonnes in 2017

Completed construction of the flotation plant to treat sulphide ore at Cam & Motor mine

Successfully transitioned to owner mining at Dalny mine and Cam & Motor mine

Launched an intensive exploration programme at One Step to supplement oxide ore supply at Cam & Motor mine

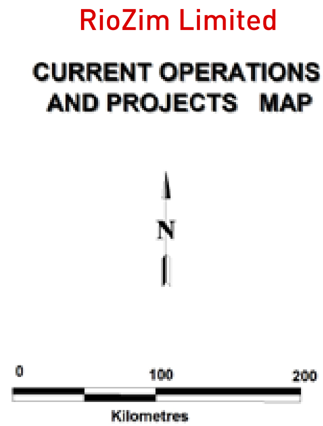
Secured an investor for the Sengwa Power Project

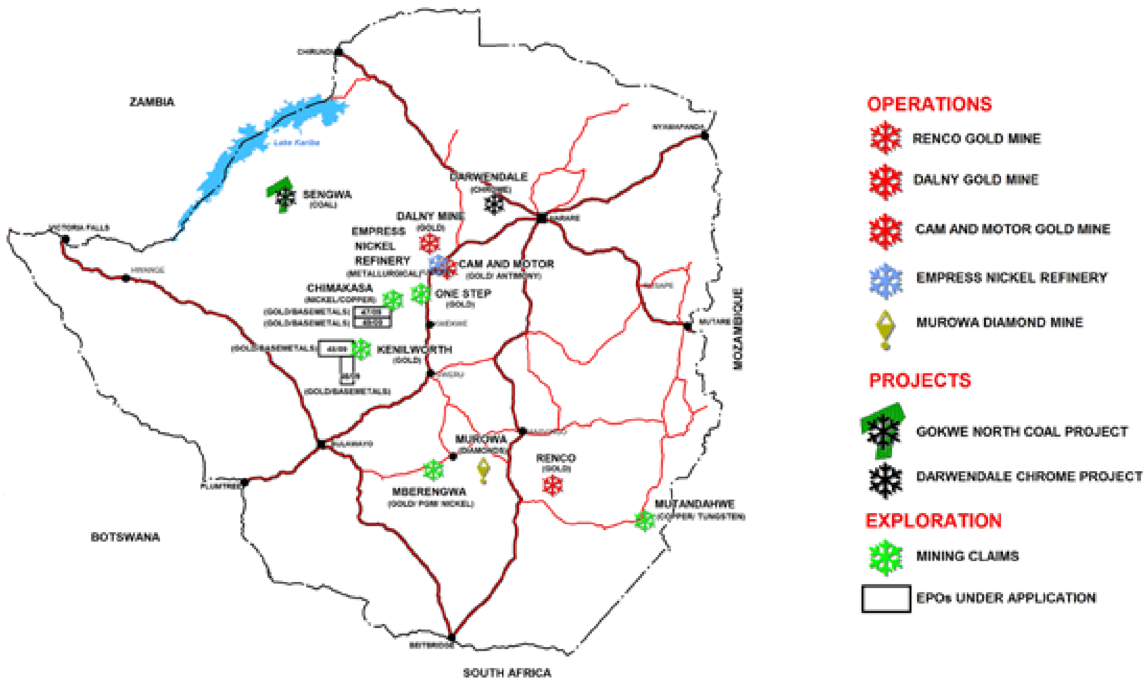
17 % increase in capital expenditure to US$12.8 million from US$10.9 million in 2017

# LOCATION OF OPERATIONS

## COMPANY OPERATIONS

In the year under review the Group operated Renco Mine located in Masvingo, Dalny Mine based in Chakari, Cam & Motor Mine and Empress Nickel Refinery in Kadoma. In addition, the Group holds 50% interest in Sengwa Colliery (Private) Limited, a company with coal assets located in Gokwe North and a 22.2% interest in Murowa Diamonds (Private) Limited a company with a diamond operation located in Zvishavane. The location of these operations as well as the Group's areas of interest are shown below:



# MANAGEMENT STRUCTURE

## GROUP

### GROUP CHIEF EXECUTIVE OFFICER

B NKOMO
*Advanced Management Programme (Harvard University), CA (Z), CA (SA), B Comm -Acc, B Compt (hons)*

### CHIEF FINANCE OFFICER

R SWAMI
*ACA (India), ACS (India),CPA (USA),B.Com(Hons) (India)*

### CHIEF OPERATIONS OFFICER

M SHAH
*CA (India), Msc Accounting & Finance (UK), Alumni of Harvard University*

### CORPORATE AFFAIRS EXECUTIVE

W GWATIRINGA
*IOB (Z), IOB(SA),MBA*

### LEGAL COUNSEL AND GROUP SECRETARIAL

Z MAKORIE
*LLBs (hons) (UZ), MBA*

### GROUP HUMAN RESOURCES MANAGER

J NJANIKE
*Bsc Economics, IPMZ, LCCI Mngt, MBA*

### FINANCIAL CONTROLLER

C BENZA
*CA (Z), CA (SA), BAcc (UZ), B Compt (hons) (UNISA)*

### GROUP SUPPLY CHAIN MANAGER

L DUBE
*HND Purchasing, Dip Bus Studies*

### CHIEF GEOLOGIST

P TAKAEDZA
*Bsc Geology (UZ)*

### GENERAL MANAGER - Engineering Services

M MACHIKICHO
*Bsc Mechanical Engineering (UZ)*

### SECRETARIES

RIOZIM MANAGEMENT SERVICES (PRIVATE) LIMITED

## DIVISION

### GENERAL MANAGER - Empress Nickel Refinery (ENR)

C KARIWO
*Bsc Metallurgy (UK), Dip Mgt Dev ( UNISA)*

### GENERAL MANAGER - Cam & Motor Mine

T KADYAMUSUMA
*Bsc Metallurgical Engineering (hons) (UZ)*

### GENERAL MANAGER - Dalny Mine

S DHLAMINI
*Bsc Geology (UZ), Post Grad Applied Geography (Canada)*

### GENERAL MANAGER - Renco Mine

N MAFURUTU
*Bsc Mining Engineering (hons), MBA*

### GENERAL MANAGER - Murowa Diamonds (Associate)

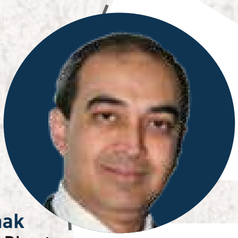
M NYAMHUNGA
*Bsc Metallurgical Engineering (hons) (UZ), MBA*

# BOARD OF DIRECTORS

**L P Chihota**
Non - Executive Chairman

**B Nkomo**
Group Chief Executive Officer

**I M Sharma**
Non - Executive Director



**M T Sachak**
Non - Executive Director

**S R Beebeejaun**
Non -Executive Director

**K Matsheza**
Non - Executive Director

**J M Chikura**
Non - Executive Director

**G K Jain**
Non - Executive Director

**C Dengu**
Non -Executive Director

# CAM & MOTOR MINE

***The Mine continued to be the flagship operation of the Group contributing 42% of the total gold output.***

# CHAIRMAN'S STATEMENT

**L P Chihota -**
Chairman

## INTRODUCTION

Notwithstanding the implementation of progressive policies aimed at opening up the Zimbabwean economy for both local and international investment, and a concerted effort to achieve the same by Government, the year 2018 proved to be an extremely challenging year economically characterised by acute foreign currency shortages and severe inflationary pressures. Specific to the mining industry, the stipulated foreign currency allocations persistently remained far below the stipulated retention levels which were set by the Central Bank from time to time. This set the stage for a very difficult operating environment and an inability to procure necessary stocks from critical foreign suppliers. That period is the subject of a legal dispute between the Group, Reserve Bank of Zimbabwe and Fidelity Printers and Refiners (Private) Limited.

The situation, however, worsened as the year progressed and reached unprecedented levels as was depicted by the involuntary shutdown of all mining operations by the Company's gold business units in the fourth quarter. As a result of these challenges, a whole two months' production was lost albeit the fact that the Company continued to meet all of its fixed costs and thus driving the business down a path of operating losses. The resumption of operations was only made possible after an upward review of forex retention to 55%, and the release of payments towards suppliers. At the same time, although a forex retention of 55% was theoretically sufficient to meet the Company's immediate operational expenditure needs and requirements, the remaining 45% of the Company's gold export proceeds were paid in local RTGS currency at a rate of 1:1 with the US$, notwithstanding the fact that the prevailing parallel market was as at October trading at a rate of circa US$ 1: RTGS$4, and all local suppliers had adjusted their prices to these exorbitant parallel market rates. As a result, for a greater part of the second half of the year 2018, the Group effectively sold 45% of its gold production at only 25% of its true value.

Consequently, due to these macroeconomic factors and difficulties, gold production for the year regressed by 13% to 1.792 tonnes which is less than the 2.071 tonnes achieved in the prior year. Therefore, as a result of these challenges, the Group recorded a net loss of US$2.3 million for the year. Regrettably, this demonstrated a negative growth when compared to the net profit of US$8.1 million which the Group had posted in the prior year on the back of various growth strategies which it had implemented in the year 2017.

RioZim Limited, however, prides itself in being a truly resilient Zimbabwean company and despite these difficulties, various milestones were achieved during the course of the year, notwithstanding the macroeconomic obstacles which it faced. Firstly, the Group successfully moved from third-party contract mining and commissioned owner-mining at both its Cam & Motor and Dalny Mining sites thus not only significantly reducing operating costs but also, this made the Group's mining operations wholly self-dependant.

The Group was also able to successfully cold-commission its flotation plant at Cam & Motor Mine which brought the mine one step closer to treating refractory ore in the area. Thirdly, the Group signed binding exclusivity and framework agreements with a renowned international player and investor in respect of its Sengwa Coal Mine resource which will see the commencement and ground-breaking ceremony of the Sengwa Power Station Project in the near future.

Murowa Diamonds (Private) Limited, the Group's associate, also managed to maintain its momentum from the prior year and produced 740 244 carats from 732 045 carats recorded in the prior year and thus reached record heights in its levels of production.

# CHAIRMAN'S STATEMENT (Cont'd)

## FINANCIAL PERFORMANCE

The Group's revenue decreased by 15% to US$75.4 million in 2018 from US$88.9 million realised in 2017. The Group's underperformance was due to low production volumes in the second half of the year and the inability to complete planned capital projects due to foreign currency funding constraints, which would have sustained and increased production. Gold prices averaged US$1247/oz faring slightly better than the levels of US$1242/oz realised in 2017.

From a purely operations perspective, the Group was able to record an operating profit of US$2.4 million which was 71% below the prior year's operating profit of US$8.1 million. Overall, however, the Group exited the year with a net loss of US$2.3 million against a net profit of US$8.1 million achieved in the prior year, partly attributable to the fixed costs incurred whilst operations were suspended for the gold business. In terms of EBITDA for the year, the Group realised a figure of US$4.5 million which again reflected a 66% decline from the prior year's EBITDA of US$13.4 million.

### Functional Currency

The Reserve Bank of Zimbabwe introduced the RTGS$ as an official currency separate from the US$ on the 20th of February 2019. In terms of International Financial Reporting Standards (IFRS), this constituted a material post balance sheet event which reflected a condition that existed at the reporting date and therefore requiring adjustment in the financial statements. On 22 February 2019 the Government issued SI 33 of 2019 which prescribed an exchange rate of 1:1 for all assets and liabilities prior to or on the effective date between RTGS$ and the US$. IAS 21 *"The Effects of Changes in Foreign Exchange Rates"* requires that all transactions and balances denominated in a currency other than the functional currency should be presented at the market exchange rate.

The Group, however, in compliance with SI 33 of 2019 maintained the 1:1 fixed exchange rate between its functional currency US$ and RTGS$ as at the reporting date of 31 December 2018 in accordance with the law. This was however in conflict with IAS 21 which requires market exchange rates to be used. In this regard, the Group's financial statements were therefore issued with an adverse opinion from its auditors as a result of the non-compliance with IAS 21.

### *Cam & Motor*

The mine produced 458 kg in the first half of the year. However, due to falling recoveries and the temporary stoppage of operations, the mine closed the year with a total production figure of 758 kg which demonstrated a 22% reduction from the prior year. The decline in recoveries (65% in 2018 vs 77% in 2017) was attributable to depletion of amenable oxide ores and an increase in refractory ore, which cannot be effectively treated with the traditional carbon-in-leach process. Although the mine's milling performance was an improvement from the prior year, this did not translate to improved production due to the falling recoveries and ultimately this resulted in an increase in the production cost per ounce. The Group is in the process of developing a Biological Oxidation (BIOX) Plant in order to treat the refractory ore reserves. Unfortunately, the scarcity of foreign currency held back the project in the year under review. Once operational, the BIOX Plant is expected to enable the Mine to double its production output.

### *Renco*

The mine produced 591kg, 61% of which was produced in the first half of the year. The total period's production was a 14% reduction from the prior year. The depressed output in the second half of the year was attributable to under-performance in the milling section. The deteriorating ability to access adequate foreign currency in the second half of the year hampered the Company's efforts to procure consumables for the mine which resulted in low plant availability and reduced milling time. The situation was exacerbated by the impromptu suspension of operations in Q4. Furthermore, the mine was unable to proceed with plans to develop an additional shaft to ramp up mining capacity due to the same constraints.

### *Dalny*

Dalny produced 442kgs, an 8% increase from the prior year. The Company's investment in exploration and development in the prior year resulted in the improved availability of ore sources with higher recoveries. Improved milling also underpinned the strong performance. Shortages of foreign currency resulted in the delay of scheduled underground mining at the mine which would have further increased production. As a result, the mine could not access the rich underground ore resource, leading to lower grades of 2.57 g/t against grades of 2.65 g/t achieved in 2017.

Part of the Heavy Mobile Equipment mining kit purchased during the year

# CHAIRMAN'S STATEMENT (Cont'd)

***Empress Nickel Refinery***

The Refinery remained under care and maintenance throughout the year.

***Murowa***

The Group's associate Murowa Diamonds (Private) Limited ("Murowa") posted a profit of US$6.8million. Murowa's stellar performance was depicted in an increase of diamond production to 740 244 carats against prior year's production of 732 045 carats. Furthermore, the courts' declaration that the alleged ground rental fees were ***ultra vires*** the Mines and Minerals Act [Chapter 21:05] had a positive impact on the viability of the associate's business. The associate contributed positively to the Group's results with a share of profit of US$1.5million (2017: US$1.4 million).

***Energy***

The Group made strides in the Sengwa Power Station Project which entails the development of a 2 800 MW power station in phases of 700 MW each. As the project gained significant traction during the year under review, the Company has now set ambitious targets for 2019 which will culminate in the project kick - off in the next twelve months.

## OUTLOOK

Going forward, our objectives remain consistent and well defined; – pursue growth opportunities, generate free cash flows and positive returns. In this regard, the Group has lined up strategic initiatives which if successfully implemented, will significantly improve the Group`s fortunes. The major projects include the construction of the BIOX plant at Cam & Motor Mine and the Sengwa Power Station Project. The Group is encouraged by engagements made with monetary authorities to mitigate the currency constraints and is confident that the projects will prevail and is, therefore, looking forward to a conducive operating environment in 2019.

## SUSTAINABILITY

RioZim Limited remains resolute on building and maintaining a sustainable mining concern in line with its holistic approach to business. Among the Group's key goals is to be a responsible corporate citizen. RioZim Foundation continues to expand on its vision to create, develop and promote collaborative sustainable development programmes so that measurable socio-economic benefits are afforded to the communities in which the Group operates and to the country at large.

## APPRECIATION

I would like to extend the Board's sincerest gratitude to RioZim's entire staff for their continued loyalty, support, hard work, and professionalism especially during the turbulent times which the business faced in the fourth quarter of 2018 which resulted in the involuntary shutdown of operations. I would also wish to thank our valued shareholders who continue to support the Group during the best and worst of its times.

Overall, despite the setbacks experienced in the year 2018, the RioZim Board, Management, Staff and myself look forward to delivering a year of real growth for the benefit of all our stakeholders which include our shareholders, communities and the nation at large.

L P CHIHOTA
**Board Chairman**
12 April 2019

*Significant investments were made in cutting edge equipment for the exploration department given its importance in securing the future of the Group.*

# GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

**B Nkomo -**
Group Chief
Executive Officer

## INTRODUCTION

The macroeconomic environment was generally unhealthy throughout the year, however, it deteriorated markedly in the second half of the year scuppering the growth trajectory that had gained momentum from 2017.

A limited foreign currency retention threshold, as well as payment of the remaining gold export proceeds in local RTGS currency at a Central Bank fixed rate of 1:1 to the USD led to the involuntary stoppage of operations as the Company was unable to procure key production consumables to sustain its operations. The alternative market, however, which dictated local prices for raw materials, was trading at much higher rates and exponentially propelled the cost of production, thereby, negatively affecting the business. Consequently, a significant portion of planned gold production for the period was lost, and the yearly production targets could not be met. The impact of lost production, selling gold produce at a fraction of its value together with fixed costs that the Company had to incur during the involuntary stoppage culminated in a net loss for the year of US$2.3 million being recorded.

### Financial Performance

The Group produced 1.792tonnes of gold during the period under review representing a 13% decline in production when compared to the 2.071tonnes that were produced in 2017. The Group realised revenue of US$75.4 million compared to US$88.9 million achieved in the prior period. The negative growth was attributable to the halt in operations in the second half of the year coupled with low milled tonnes at Renco Mine as well as low recoveries experienced at Cam and Motor Mine. Low recoveries at Cam and Motor Mine depressed gold output as the Mine processed significant sulphide ore during the year, which is not amenable to traditional cyanidation process. According to the Company's plans, a Biological Oxidation (BIOX) Plant which has the competency to recover gold from sulphide ores was scheduled to be installed and commissioned in early 2018, but this could not be achieved as a result of foreign currency constraints.

Given the challenging operating environment, the Group generated US$4.5 million in Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA) as compared to US$13.4 million that was generated in the previous year. The decline in EBITDA, which is against our aim to create the capacity to invest in growth through a combination of cost discipline and revenue growth, was largely attributable to the involuntary suspension of operations, which resulted in an outflow of cash to cover fixed costs without a corresponding cash inflow in the form of sales revenue. Overall the Group achieved an operating profit of US$2.4 million, a decline from the US$8.1 million which was achieved in 2017.

### Functional Currency

The introduction of RTGS$ as an official currency by the Central Bank subsequent to year-end at a starting exchange rate of US$1:RTGS$2.5, and the promulgation of Statutory Instrument 33 of 2019 (SI 33) which prescribed an exchange rate of US$1:RTGS$1 for all assets and liabilities prior to the introduction of the RTGS$ currency created inconsistencies with International Financial Reporting Standards (IFRS), which is the reporting framework. In the midst of the conflict between the requirements of the law and IFRS, the Company complied with the law, as compelled by SI 41 of 2019 which prescribes that the law should take precedence. Detailed disclosure has been provided in the notes to the financial statements.

# GROUP CHIEF EXECUTIVE OFFICER'S REVIEW (Cont'd)

Dalny open pit operations

Renco operations

Cam & Motor open pit operations

## OPERATIONS OVERVIEW

### Renco Mine

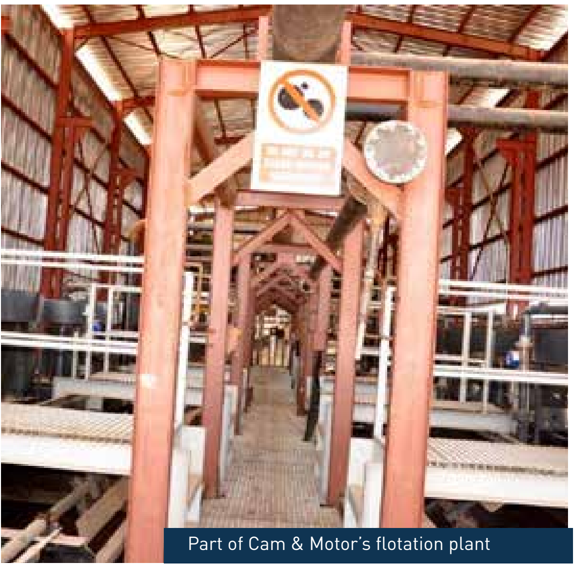
The operation produced 591kg of gold, 14% below the 688kg recorded in 2017. In addition to the disruption of operations in the fourth quarter of the year, the decline in production was attributable to reduced throughput in the third quarter of the year due to a leach tank failure. This dictated that throughput be reduced in order to maintain set residence cycles in the process. The Mine realised an improvement in the grade, as a consequence of investments made in exploration and development in prior periods.

The Mine continued to focus on exploration and development in order to generate more mining blocks and increase flexibility. This has been critical over the last few years in order to stabilise the head grade. Looking ahead, the Mine has an exciting project pipeline which will require the Company to continue making investments in exploration and development in order to delineate more resources to sustain current and future operations.

The following table shows a reconciliation of the ore reserves and resources of Renco as at 31 December 2018

| Renco Mine Resource Statement | Tonnes | Grade (G/T) | Content (Kg) |
|---|---|---|---|
| Proved ore reserves as at 1 January 2018 | 62 950 | 5.62 | 354 |
| Plus generated during the year | - | - | - |
| Less depleted by mining during the year | 10 490 | 3.90 | 41 |
| Proved ore reserves as at 31 December 2018 | 52 460 | 5.96 | 313 |
| | | | |
| Probable ore reserves as at 1 January 2018 | 259 427 | 5.76 | 1 495 |
| Plus generated during the year | - | - | - |
| Less depleted by mining during the year | 18 930 | 3.93 | 74 |
| Probable ore reserves as at 31 December 2018 | 240 497 | 5.91 | 1 421 |
| | | | |
| Total ore reserves as at 31 december 2018 | 292 957 | 5.92 | 1 734 |
| | | | |
| Measured mineral resources as at 1 January 2018 | 143 980 | 5.38 | 775 |
| Measured mineral resources as at 31 December 2018 | 143 980 | 5.38 | 775 |
| | | | |
| Indicated mineral resources as at 1 January 2018 | 1 309 230 | 6.29 | 8 240 |
| Indicated mineral resources as at 31 December 2018 | 1 701 405 | 5.48 | 9 325 |
| | | | |
| Inferred mineral resources as at 1 January 2018 | 3 218 760 | 5.38 | 22 996 |
| Inferred mineral resources as at 31 December 2018 | 3 110 631 | 7.49 | 23 306 |

# GROUP CHIEF EXECUTIVE OFFICER'S REVIEW (Cont'd)



Part of Cam & Motor's flotation plant

*The completion of the Flotation Plant was a major milestone for the Group towards treating refractory ore*

### Cam & Motor Mine

During the year under review, the Mine produced 758kg of gold thus contributing 42% of the Group's total gold output. The 2018 year production was a 22% decline from the 974kg produced in 2017. In addition to the suspension of operations in the fourth quarter which affected production quantities, there was a decline in cumulative ore mined as the Mine carried out selective mining in the pit to avoid completely refractory sulphides portions of the ore body. The general increase in refractoriness of the ore body also negatively affected recoveries, which increased the cost of production of the operation as there was less gold recovered from milled ore.

In the period under review, the Mine fully transitioned from contract mining to owner mining with the successful acquisition and deployment of owned heavy mobile equipment (HME) mining kit. It is envisaged that this model will yield fruits over an extended period in terms of cost savings and by allowing greater control over mine planning. The completion of the Flotation Plant was a major milestone for the Group towards treating refractory ore. The Flotation Plant will produce gold concentrate, which will require further treatment into gold bullion. The Group intends to install a BIOX Plant that will recover gold bullion from the concentrate output of the flotation circuit, the progress of which has been stalled by the unavailability of foreign currency.

The Group was successful in relocating the main third-party properties in the immediate vicinity of the mine, this enabled the progression of the mine's plan towards the Cam resources which were previously inaccessible. Going forward the Company will continue to engage with third-party property owners with a view to relocating property owners as this will enable the Mine to blast the full strike of the Motor and Cam pits.

Repairs and modifications continued to be implemented on critical elements of the process plant including the main mill motor, shaft, and mill drive clutches. Time was taken to replace these with proven alternatives to avoid continued premature failures.

Below is the reconciliation of ore reserves and resources for Cam & Motor Mine as at 31 December 2018:

| Cam & Motor Mine Resource Statement | Tonnes | Grade (g/t) | Content (kg) |
|---|---|---|---|
| **Proved ore reserves as at 1 January 2018** | **3 029 059** | **5.67** | **17 166** |
| Plus generated during the year | - | - | - |
| Less depleted by mining during the year | 389 397 | 3.34 | 1 301 |
| **Proved ore reserves as at 31 December 2018** | **2 639 662** | **6.01** | **15 865** |
| | | | |
| **Probable ore reserves as at 1 January 2018** | **379 424** | **4.28** | **1 624** |
| Plus generated during the year | - | - | - |
| Less depleted by mining during the year | - | - | - |
| **Probable ore reserves as at 31 December 2018** | **379 424** | **4.28** | **1 624** |
| | | | |
| **Total ore reserves as at 31 December 2018** | **3 019 086** | **5.79** | **17 489** |
| | | | |
| **Measured mineral resources as at 1 January 2018** | **961 700** | **4.50** | **4 328** |
| **Measured mineral resources as at 31 December 2018** | **961 700** | **4.50** | **4 328** |
| | | | |
| **Indicated mineral resources as at 1 January 2018** | **437 480** | **3.43** | **1 501** |
| **Indicated mineral resources as at 31 December 2018** | **679 880** | **2.99** | **2 032** |
| | | | |
| **Inferred mineral resources as at 1 January 2018** | **650 960** | **2.28** | **1 486** |
| **Inferred mineral resources as at 31 December 2018** | **650 960** | **2.28** | **1 486** |

# GROUP CHIEF EXECUTIVE OFFICER'S REVIEW (Cont'd)

ENR Oxygen plant

Renco Oxygen plant

***Dalny Mine***

The operation produced 442kg of gold, an increase of 8% from the prior year's production. The mine not only experienced an increase in milled tonnes but also recovery improved in comparison to the prior year.

Like Cam and Motor Mine, the mine also fully transitioned to owner mining during the second half of the year. The Company is optimistic that this will yield results in the short and medium term.

The Mine continued to explore and develop surface and near-surface ore resources and was self-sufficient in maintaining pre-supply to the processing plant. The Company still intends to access the higher-grade underground resource that was declared upon acquisition and therefore, during the year, the Company continued the dewatering programme which will be sustained going forward.

Various process optimisation initiatives continue to be implemented in order to repair and replace parts of the processing plant. This has already resulted in improved plant availability and steady output performance.

The followig table shows the reconciliation of ore reserves and resources for Dalny Mine as at 31 December 2018:

| Dalny Mine Resource Statement | Tonnes | Grade (g/t) | Content (kg) |
|---|---|---|---|
| **Proved ore reserves as at 1 January 2018** | **237 454** | **4.94** | **1 173** |
| **Proved ore reserves as at 31 December 2018** | **237 454** | **4.94** | **1 173** |
| | | | |
| **Probable ore reserves as at 1 January 2018** | **261 497** | **4.58** | **1 199** |
| Plus generated during the year | 12 831 | 5.95 | 76 |
| **Probable ore reserves as at 31 December 2018** | **274 328** | **4.65** | **1 275** |
| | | | |
| **Total ore reserves as at 31 December 2018** | **511 782** | **4.78** | **2 448** |
| | | | |
| **Measured mineral resources as at 1 January 2018** | **641 715** | **7.20** | **4 618** |
| Measured mineral resources as at 31 December 2018 | 641 715 | 7.20 | 4 618 |
| | | | |
| **Indicated mineral resources as at 1 January 2018** | **903 440** | **4.18** | **3 776** |
| Indicated mineral resources as at 31 December 2018 | 976 698 | 4.46 | 4 358 |
| | | | |
| **Inferred mineral resources as at 1 January 2018** | **268 861** | **4.64** | **1 248** |
| **Inferred mineral resources as at 31 December 2018** | **427 810** | **4.21** | **1 801** |

# GROUP CHIEF EXECUTIVE OFFICER'S REVIEW (Cont'd)

Sengwa exploration core shed

Sengwa coal mine

***The Group is focused on ensuring that the timelines for the Sengwa Power project are adhered to and that value is extracted from this resource***

### *Empress Nickel Refinery (ENR)*

ENR remained under care and maintenance due to non-availability of matte. Sections of the refinery, including the smelter, the boiler house and part of the tank house were left operational in line with the strategy to utilise all possible avenues available to the Refinery for cash generation and maintain the integrity of the plant. The operation produced 595 tonnes of matte and 62 tonnes of copper cathode electroplated from copper oxides residues. The Refinery's activities generated revenue of US$3.4 million, which partly covered the Refinery's care and maintenance costs.

The Group remains committed to exploiting the Empress Nickel Refinery ("ENR") to beneficiate all copper and nickel concentrates into LME grade metal as well as to beneficiate lithium carbonate. The Refinery has historically been a significant foreign currency earner and employer for the nation and the Group's plans to resuscitate the operation will not only be beneficial for the Company but for the country at large. Currently, the Group is exploring various metal treatment projects that will result in the optimal use of this world-class asset.

### *Sengwa Colliery*

The Group signed some binding agreements with a globally recognised Investment Partner to develop a mine to feed the power station. Project development work has commenced and is due for completion in the short term.

The Group anticipates that ground-breaking on the project will occur in the short to medium term, depending on the continuous improvement of the macroeconomic environment. Once constructed, it is envisaged that the Sengwa Thermal Power Station will disrupt the local energy market and result in uninterrupted power supply for the growing productive sector.
Over the years, exploration work was completed at a significant cost which delineated a resource of circa 1.3 billion tons of coal as shown on the resource statement below:

| RESOURCE CATEGORY | MEASURED | INDICATED | INFERRED | TOTAL |
|---|---|---|---|---|
| TONS (000S) | 519 068 | 513 422 | 328 324 | 1 360 814 |
| STRIPPING RATIO (BCM/T) | 2.66 | 3.20 | 6.70 | 5.90 |
| THICKNESS (M) | 21.53 | 20.00 | 19.70 | |
| MOISTURE (%AD) | 2.57 | 3.00 | 3.10 | |
| ASH (%AD) | 34.40 | 37.20 | 38.30 | |
| SULPHUR (%AD) | 0.33 | 0.35 | 0.33 | |
| ENERGY (MJ/KG AD) | 19.57 | 18.29 | 17.77 | |

# GROUP CHIEF EXECUTIVE OFFICER'S REVIEW (Cont'd)

***Associate – Murowa Diamonds (Private) Limited***

Murowa continued its strong performance from 2017 leveraging on investments made in the prior year including increased plant processing capacity and owner mining.

Comprehensive process optimisation and further exploration drilling for better ore body knowledge enabled Murowa to produce 740 244 cts which was consistent with the 732 045 cts produced in 2017. The Group's share of profit increased to US$1.5 million from US$1.4 million in the prior year.

The associate remains proactive in identifying opportunities that will maintain its growth trajectory and is currently focussed on extending its life of mine as well as increasing production through various initiatives. The extension of the operation's life of mine will require significant investment in various aspects including exploration.

## Human Resources

Our staff complement grew to 2 468 from 2 375 in the prior year in line with the demands of our operations and the transition made to owner mining.

The Group continues to recruit attachment students and graduate trainees from local learning institutions and communities where our operations are located.

## Corporate Social Investment

Our corporate social investments are implemented through the RioZim Foundation. The 2018 priorities for the Foundation were in the areas of youth empowerment, water security and education, with projects implemented in the communities in which we operate in line with this focus. The Foundation will continue to concentrate its efforts on projects that deliver measurable benefits and maximise impact.

## Future Prospects

We remain confident that the recent pronouncements by the Central Bank to liberalise the exchange rate will go a long way in ensuring the sustainability of all our operations. The future of our operations will depend heavily on a sustained full liberalisation of the exchange rate so that the Group's products can be sold for full value. Over the short to medium term, the Company is focused on accelerating its capital projects that have fallen behind due to inadequate foreign currency allocation from the Central Bank and lack of optimal funding. The Group is also focused on ensuring that the set timelines for the Sengwa Power Project are adhered to and that value is extracted from this resource.

The resuscitation of ENR also remains a key focus area in ensuring that the Group achieves growth, positive returns and positive cash flows across our entire portfolio of assets. Further, the focus on exploration will continue across the Group's portfolio. The exploration department received a considerable allocation of capital in 2018 given its importance in securing the future of the Group's operations. Cutting edge equipment was procured to capacitate the exploration activities of the Group and this momentum is set to be maintained in 2019.

## Appreciation

Much appreciation goes to the RioZim Group staff members who showed a lot of resilience, especially in the fourth quarter when the Group experienced dire challenges leading to the involuntary suspension of operations. To the RioZim Board of Directors– I thank you for your leadership and support during the challenging operating period experienced in 2018. Your unwavering commitment and support has been inspiring. I would also like to thank all our stakeholders and business partners for their invaluable and continued support during the year.

B NKOMO
**Group Chief Executive Officer**

Harare
12 April 2019

# HEALTH, SAFETY & ENVIRONMENT

Community wellness campaigns

Clean up campaign in Chemukute, Kadoma

The Group recognises its legal and moral obligation to provide a safe working environment. Various initiatives have been implemented to increase work place awareness of safety risks

## INTRODUCTION

### Introduction

The implementation of sustainable health and safety initiatives in the workplace is an integral and continuing journey of the Group in achieving its business objectives. The Group commits to the use of appropriate technologies and various initiatives focused around improvement of workplace Health, Safety and Environmental conditions. The year under review, 2018, was no different in relation thereto.

### Health

The Group highly values the health of its employees. The Group's target is zero harm on all occupational health cases. In light of this, the Group strives to mitigate against the potential threats and dangers associated with its activities.

A medical surveillance programme was conducted during the year with much success, achieving 100% coverage for the following examinations; vision screening; food handling and lead examinations.

The Group managed to hold two employee wellness sessions in Kadoma during the year. The first session was a drama presentation on occupational health diseases by popular comedian Vharazhipi, which was also augmented by Voluntary Counselling and Testing (VCT) and healthy living education. In the second session we offered a week-long variety of free medical services which included cancer (cervical and breast) screening, sugar and diabetes testing and counselling and blood pressure examinations among others. The occasion was a major success and very welcomed by the community. Employee training sessions were also held as part of the on the job training on both communicable and non-communicable diseases.

The Group managed to participate in the National First Aid competitions that were held at ZimPlats Turf Stadium. The Group has managed to increase its ratio of First Aiders across all its operations through increased trainings during the year.

### Safety

Several Health, Safety and Environmental initiatives were taken to promote the Zero Harm culture across the operations culminating in the identification and development of departmental baseline risk registers and standard operating procedures.

During the year under review, there was no recorded fatality in all the operations. There was an improvement in Lost Time Injuries from 16 in 2017 to 14 in 2018 which bears testimony to the safety initiatives being undertaken. All the other leading indicators were within our target specifications.

### Environment

Various programmes were implemented to improve the work environment across the Group. The National Social Security Authority was commissioned to carry out baseline industrial hygiene surveys which covered emissions, dust, noise and illumination to determine compliance status and address areas where there is non-conformance.

Mine effluent monitoring to check for free cyanide and other parameters remained rigorous throughout the year to manage pollution of underground and surface water sources.

Clean-up campaigns were conducted across the communities surrounding the Group's operations as a response to the cholera outbreak. The clean-up was aimed at ensuring that the communities are kept clean and people have the spirit to maintain a clean environment.

# SOCIAL PERFORMANCE & LABOUR PRACTICES

## INTRODUCTION

During the period under review, the Group continued to implement corporate social responsibility programmes in all its host communities. To that end, the following is a summary of community projects undertaken in different areas:

### Education

Through the RioZim Foundation, the Group continued to support education through upgrading schools in the communities around its operations and carrying out student support programmes. Over a hundred students in the Mazvihwa community, some students at Mhondoro Ngezi High School and at Zimuto High School in Nyajena benefited from the Company's student support programmes.

### Youth Community Empowerment

As a youth empowerment initiative, the RioZim Foundation took youths drawn from different communities through a driver training programme resulting in 53 youths obtaining driving licences.

The Foundation also continued to offer technical and financial support to its institutions such as Rupike Irrigation Scheme and RioTinto Agricultural College.

### Water Security and Infrastructure

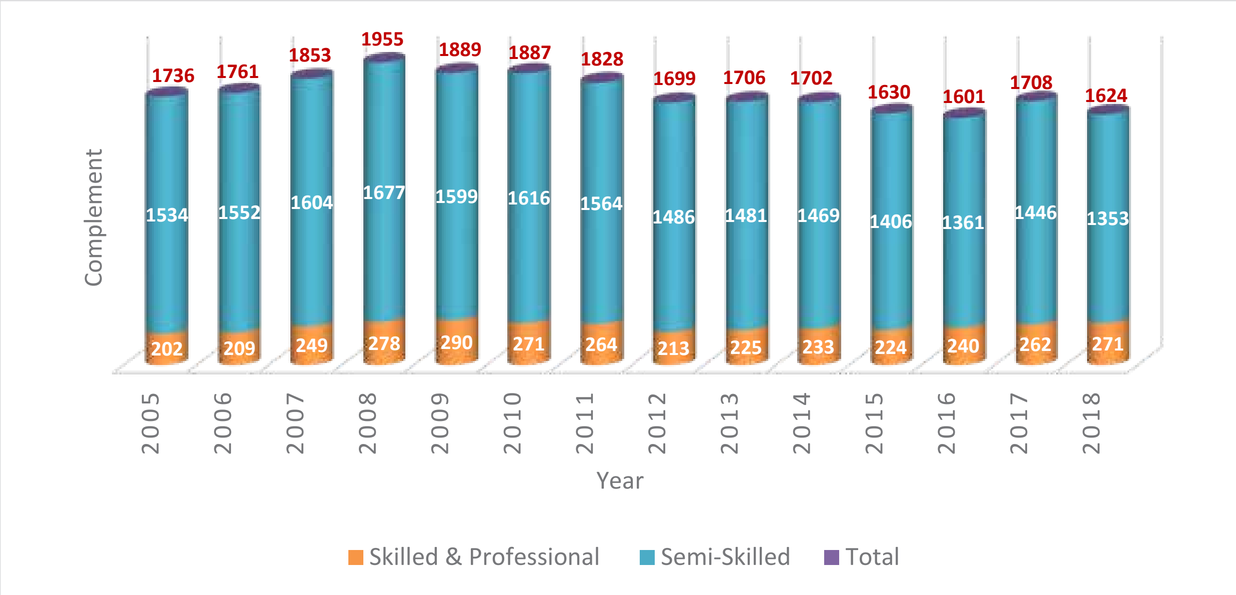
The Group assisted in the provision of clean water to communities by repairing and maintaining boreholes in the Chakari, Eiffel Flats and Nyajena communities.

Our mines also assisted in repairing road infrastructure and school buildings in their host communities.

### Eiffel Flats Relocations

Significant progress was made in relocations as more properties in Phase 3 were acquired to make way for the expansion of the Cam and Motor Mine open cast mining operations.

# SOCIAL PERFORMANCE & LABOUR PRACTICES (Cont'd)




## HUMAN CAPITAL

Our manning levels depict the level of business activity at all our operations and are in line with the Company strategy. Total permanent staff complement averaged 1 624 made up of 271 employees in the skilled labour category and 1 353 in the semi/unskilled labour category. In addition, the Group had an average of 844 contract employees giving an average Group complement of 2 468 for 2018.

The Company continues to support the communities within which it operates by engaging employees from the locations including offering training and development opportunities for students.

### Investing in our people

The human resources department provided a variety of training and development opportunities aimed at building employee capacity to deliver services, meet strategic needs and align with the Company's values, strategic plan, and overall mission.

The year 2018 witnessed various initiatives that were focused towards reinforcing our ideology of enhancing our employees and communities through imparting skills. These initiatives included:

- Customised solutions for our various departments by delivering in-house facilitation and work-climate diagnosis.
- On the job training for students at vocational training centres and recruitment of best graduate trainees from leading local universities and colleges.
- Sending staff on Company - sponsored talent and managerial development studies.
- Supporting the employees' career development through full payment of their fees.

### Industrial relations

The industrial relations climate was calm throughout the year. The employees continued with their unwavering support to the Company even during the most difficult period in the fourth quarter after the involuntary closure of all mines.

# REPORT OF THE DIRECTORS

The Directors have the pleasure of presenting their report, together with the consolidated financial statements of RioZim Limited and its subsidiaries (together the "Group") for the year ended 31 December 2018.

## FINANCIAL RESULTS

The Group experienced a particularly difficult year characterised by acute foreign currency shortages which drove inflation on prices of locally purchased raw materials. The Company continued to receive foreign currency way below the Central Bank threshold of 50%, thus the Company sold its gold at a heavy discount. With these unfortunate series of events the Group involuntarily stopped operations at its gold mines in the fourth quarter resulting in two months' production being lost. As a consequence, the Group failed to meet its forecasted production targets and recorded a net loss of US$2.3 million as detailed in the extract of financial statements below: -

## GROUP FINANCIAL RESULTS

| | 31 December 2018 US$000 | 31 December 2017 US$000 |
|---|---|---|
| Revenue | 75 414 | 88 855 |
| Operating profit | 2 371 | 8 115 |
| (Loss)/profit before tax | (3 170) | 7 941 |
| Income tax credit | 914 | 134 |
| **Net (loss)/ profit for the year** | **(2 256)** | **8 075** |
| Total comprehensive (loss)/profit for the year | (2 533) | 8 750 |
| Dividends | - | - |

### Functional currency

As stated in the Chairman's statement, the Group in compliance with SI 33 of 2019 maintained the 1:1 fixed exchange rate between its functional currency United States Dollars (USD) and RTGS as at the reporting date of 31 December 2018 in accordance with the law. At the reporting date RTGS dollars had not been promulgated as a currency and did not form part of the multi currencies as pronounced by the Central Bank. The RTGS dollars were only pronounced as a currency which formed part of the multi-currency system through Statutory Instrument 33 of 2019 and an exchange rate between the RTGS$ and the US$ of 2.5 :1 was introduced. IAS 21- *"The Effects of Changes in Foreign Exchange Rates"* requires that market exchange rates to be used. As disclosed on note 33 to the consolidated financial statements although an implied and unofficial exchange rate higher than 1:1 existed between USD and RTGS from 1 October 2018 there was insufficient observable factors to quantify what the exchange rate between the United States dollar and the electronic RTGS was and consequently the potential impact of any unrealised exchange adjustments to the financial statements could not be accurately and fairly determined. The Group also complied with Statutory Instrument 41 of 2019, which prescribes that where International Financial Reporting Standards (IFRS) are not aligned to local laws, then local laws take precedence. All the financial statements were derived from the underlying books and other records of the Group.

### Dividends

No dividends were declared during the period.

## SHARE CAPITAL

| | 2018 No. of shares 000 | 2018 Nominal value US$000 | 2017 No. of shares 000 | 2017 Nominal value US$000 |
|---|---|---|---|---|
| **Authorised share capital** | | | | |
| Ordinary shares of US$0.01 each | 140 000 | 1 400 | 140 000 | 1 400 |
| Cumulative redeemable preference shares of US$0.01 each | 10 000 | 100 | 10 000 | 100 |
| Special Dividend Share of a nominal value of US$124 876 | 0.001 | 125 | 0.001 | 125 |
| **Total** | **150 000** | **1 625** | **150 000** | **1 625** |
| **Issued share Capital** | | | | |
| Ordinary shares of US$0.01 each | 122 030 | 1 220 | 122 030 | 1 220 |
| Cumulative redeemable preference shares of US$0.01 each* | 10 000 | 100 | 10 000 | 100 |
| Special Dividend Share of a nominal value of US$124 876** | 0.001 | 125 | 0.001 | 125 |
| Total | **132 030** | **1 445** | **132 030** | **1 445** |

**Notes:**

*The cumulative redeemable preference shares have a fixed coupon rate of 9% and are redeemable on or before their 5th anniversary of 22 January 2021.

**The entitlement to the Special Dividend expired on 31 December 2013 and the share now ranks equally with other ordinary shares.

# REPORT OF THE DIRECTORS (Cont'd)

## SHARE CAPITAL (Cont'd)

The Company has 17 970 000 (2017: 17 970 000) unissued shares. At the 62nd Annual General Meeting (AGM) the members renewed their authority to place 5% of the unissued shares under the control of the Directors until the next AGM. The Company will be seeking authority for renewal of the same resolution as contained in the Notice of shareholders convening the 63rd AGM.

## BORROWING POWERS

In terms of the Company's Articles of Association, the Company's borrowings should be limited at any given time to twice the value of the funds that are attributable to the shareholders and any excess should be sanctioned by the Company at a General Meeting. As at balance sheet date, the Company was within the prescribed borrowing powers.

## AUDITORS

Ernst and Young Chartered Accountants (Zimbabwe) have indicated their willingness to continue as the auditors of the RioZim Limited Group. Members will be asked to fix the auditors' remuneration for the past audit and confirm their re-appointment for the ensuing year at the 63rd Annual General Meeting.

## DIRECTORATE

### Composition

Since the last Annual General Meeting, Mr JM Chikura has since been appointed to the Board of RioZim Limited as a Non Executive Director with effect from 23 April 2019. He holds a Master of Business Administration in Finance and Banking from Manchester University and he is also a Fellow of the Institute of Chartered Secretaries and Administrators. Mr Chikura served as the Chief Executive Officer of the Deposit Protection Corporation for fifteen years until his retirement in July 2018. During this period, he also held the position of Chairman for the African Region of the International Association of Deposit Insurers (IADI) and internationally, as the Treasurer. Currently, Mr Chikura sits as a non-executive director of Starafrica Limited, Zimbabwe Asset Management Company (Private) Limited, First Mutual Wealth Management (Private) Limited and Medsolve & IATRIC Investments (Private) Limited. Additionally, he also sits as a non-executive director of the Zimbabwe Leadership Forum. His expertise and insight shall be valuable to the Group.

### Director's remuneration

A resolution will be proposed at the Annual General Meeting to approve the Directors' remuneration amounting to US$204 000.00 for the period 1st January 2018 to 31st December 2018.

By order of the Board

**RioZim Management Services (Private) Limited**
**(Secretaries)**
Per Z Makorie
12 April 2019

# DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

**Directors' Responsibilities**

The Directors of RioZim Limited are responsible for preparing the financial statements and related information contained in this report in accordance with the applicable laws and regulations as well as International Financial Reporting Standards (IFRS). The financial statements should present fairly in all material respects, the financial position and the performance of the Group.

The Directors are required to:

- maintain internal controls that are necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error;
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed and;
- assess the going concern status of the Group.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time, the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act [Chapter 24.03]. The Directors also have the responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

**Compliance with International Financial Reporting Standards (IFRS), the Companies Act and Zimbabwe Stock Exchange (ZSE) Listing Requirements**

The accompanying consolidated financial statements, which have been prepared under the historical cost convention, are in agreement with the underlying books and records of the Company and the Zimbabwe Stock Exchange Listing Requirements. The Government issued SI 33 of 2019 on 22 February 2019 which prescribed an accounting treatment which was in conflict with International Financial Reporting Standards (IFRS) IAS 21 "*Effects of changes in foreign exchange rates*" and the Companies Act [Chapter 24:03]. SI 33 of 2019 prescribed an exchange rate of 1:1 for all assets and liabilities prior to or on the effective date between RTGS$ and the USD whilst, IAS 21 requires that all transactions and balances denominated in a currency other than the functional currency should be presented at the market exchange rate.

The Government also issued Statutory Instrument 41 of 2019, which prescribed that where IFRS is not aligned to local laws, then local laws take precedence. As a consequence, in compliance with SI 33 of 2019 the Group maintained the 1:1 fixed exchange rate between its functional currency USD and RTGS$ as at the reporting date of 31 December 2018, this was however in conflict with IFRS and the disclosure requirements of the Companies Act [Chapter 24:03].

**Going concern**

In assessing the going concern status of the Group the Directors took into consideration the Group's budgets, forecasts, and the Group's achievements in the current year under review that will have a positive bearing on the future performance and cash flows of the Group. The forecasts show that the Group will be profitable and will generate positive cash flows.

The Monetary Policy announced subsequent to year end on 20 February 2019 introduced an exchange rate between the RTGS$ and the USD with the starting rate of 2.5. The Group's liabilities are predominantly denominated in RTGS$ and therefore, the introduction of an exchange rate will result in local liabilities being debased to USD, this development will have a positive effect on the working capital position of the Group.

The Company's shareholders, creditors and all other stakeholders also remain confident of the prospects of the Group and continue to offer their support. Therefore, the Group will continue to operate as a going concern, and preparation of the accompanying financial statements on a going concern basis is still appropriate.

**Significant assumptions and estimates**

The Directors believe that reasonable and prudent judgments and estimates have been made in the preparation of the financial statements. The financial statements for the year ended 31 December 2018 which appear on pages 33-89 have been approved by the Board of Directors and are signed on their behalf by:

L P Chihota
**Board Chairman**
12 April 2019

B Nkomo
**Chief Executive Officer**
12 April 2019

# CORPORATE GOVERNANCE STATEMENT

RioZim Limited believes that the maintenance of good corporate governance principles is an integral part of the manner in which the Group conducts its business. Accordingly, the Group thoroughly subscribes to the principles of accountability, fairness, discipline, independence, integrity, social responsibility and transparency as laid out in the National Code on Corporate Governance Zimbabwe, the King IV Code on Corporate Governance and the Zimbabwe Stock Exchange Listing Requirements.

The Board and Management believe that through adherence to these principles, they will be able to carry out their responsibilities effectively, faithfully and to the best interests of shareholders and the society.

## BOARD OF DIRECTORS

### Overview

The Board is responsible for setting up of the Company's policies and determining its strategy. It maintains full and effective control by meeting quarterly to monitor and assess operational and financial performance, reviewing the strategy, risk and planning. The Board also meet on an ad-hoc basis to deliberate over urgent matters. The Board met seven (7) times during the year.

In 2018 the Board was made up of one (1) Executive Director and seven (7) Non-Executive Directors.

The table below details Directors' attendance at the Board Meetings for the year ended 31 December 2018.

The Directors have unrestricted access to the advice and services of the Group Company Secretary, RioZim Management Services (Private) Limited, which is responsible for the Board and the Company's compliance to statutory procedures and regulations. By using a Corporate Company Secretary, the Group benefits from a larger pool of expertise and continuity. This however does not preclude Directors from seeking independent professional advice at the Group's expense.

### Board Committees

In order to allocate due time and consideration to its vast responsibilities, the Board has delegated some of its tasks to specialised committees. Each committee is governed by specific terms of reference which include membership requirements, duties and reporting procedures. At the end of each committee meeting, highlights of the proceedings are prepared by the Company Secretary for circulation and discussion in the main Board meeting. The effectiveness of these committees is evaluated by the Board on an annual basis.

### Audit and Risk Committee

The Audit and Risk Committee comprises of three (3) non-executive Directors and is chaired by Mr. Caleb Dengu. Executive Directors and the head of the internal audit department may attend the meetings as invitees. The external auditors have unrestricted access to this committee whose responsibilities include the review of internal controls with reference to the findings of both internal and external auditors, the review of important accounting issues, establishing appropriate risk and control policies to areas of risk identified by Management, assuring the integrity and reliability of financial statements.

### Finance and Investment Committee

The Finance and Investment Committee comprises of three (3) non-executive directors with Chief Executive Officer as an ex officio member. Mr. Mustafa T. Sachak chairs the committee which meets quarterly. The committee's main objective is to provide strategic and tactical review of the Group's finance and investment projects. Such reviews are cognisant of prevailing economic conditions and agreed internal performance targets.

### Remuneration and Nominations Committee

The Remuneration and Nominations Committee comprises of three (3) non-executive members with Mr Mustafa T Sachak appointed in December 2018. Mr. Caleb Dengu is the chairman of the committee which meets not less than twice a year. The Committee advises the Board on matters relating to personnel, particularly remuneration, incentives and talent management. Its aim is to ensure that the Group attracts and thereafter retains motivated, qualified, diverse and skilled personnel.

### Sustainable Development Committee

The Sustainable Development Committee comprises of three (3) non-executive directors and is chaired by Mr. Kurai Matsheza. It meets not less than twice a year. The primary function of the committee is to assist the Board in matters concerning sustainability, stakeholder management, ensuring regulatory compliance, maintenance of social and environmental ethics. The aim of the committee is to preserve the Group's desire of being an accountable, conscious and responsible corporate citizen. All Mine General Managers attend the meetings as well as the Corporate Affairs Executive.

## BOARD ATTENDANCE

| | | |
|---|---|---|
| L P Chihota | Non-Executive Chairman | 7/7 |
| S R Beebeejaun | Non-Executive Director | 4/7 |
| C Dengu | Non-Executive Director | 7/7 |
| G. K Jain | Non-Executive Director | 1/6 |
| K Matsheza | Non-Executive Director | 7/7 |
| M T Sachak | Non-Executive Director | 7/7 |
| I M Sharma | Non-Executive Director | 5/7 |
| B Nkomo | Chief Executive Officer | 7/7 |

# CORPORATE GOVERNANCE STATEMENT (Cont'd)

## Board Committees Attendance

The chart below details the attendance of Directors within the four (4) committees.

| NAME | AUDIT AND RISK | FINANCE AND INVESTMENT | REMUNERATION AND NOMINATIONS | SUSTAINABLE DEVELOPMENT |
|---|---|---|---|---|
| C DENGU<br>*NON-EXECUTIVE DIRECTOR* | 3/3 | 4/4 | 3/3 | N/A |
| K MATSHEZA<br>*NON-EXECUTIVE DIRECTOR* | N/A | 4/4 | 3/3 | 2/2 |
| S R BEEBEEJAUN<br>*NON-EXECUTIVE DIRECTOR* | 0/3 | N/A | N/A | N/A |
| M T SACHAK<br>*NON-EXECUTIVE DIRECTOR* | 3/3 | 4/4 | 0/3 | 1/2 |
| I M SHARMA<br>*NON-EXECUTIVE DIRECTOR* | N/A | N/A | N/A | 0/2 |
| G.K. JAIN<br>*NON-EXECUTIVE DIRECTOR* | 1/2 | N/A | N/A | N/A |

## Declaration of Directors' or Employee Interests

a) In accordance with the principle of transparency, the Company observes a closed period, from a month prior to the end of the relevant accounting period to the announcement of the interim or year-end results, as the case may be. During the closed period neither the Directors nor officers of the Group may deal, either directly or indirectly, in the shares of the Company.

Outside of the closed periods, Directors and officers of the Company must obtain prior written approval of the Company in order to deal in its shares.

b) Directors and officers of the Company are obligated to declare any material interest they may have that may be deemed to be in conflict with their appointments.

# DIRECT AND INDIRECT SHAREHOLDING OF DIRECTORS

As at 31 December 2018

| Director's name | No. of Shares as at 31 December 2018 |
|---|---|
| C. Dengu | 187 |
| K. Matsheza | 3 040 |
| M. Sachak* | 51 441 |
| **Total** | **54 668** |

*Mr M. Sachak holds 51 441 shares in his personal capacity and an indirect shareholding through Triedward Investments (Private) Limited which owns 68 368 ordinary shares in RioZim Limited.

There were no changes in the above direct and indirect shareholding of Directors as at 29 April 2019, the date of publication of these financial statements.

As at 31 December 2017

| Director's name | No. of Shares as at 31 December 2017 |
|---|---|
| C. Dengu | 187 |
| K. Matsheza | 3 040 |
| M. Sachak* | 51 441 |
| **Total** | **54 668** |

*Mr M. Sachak held 51 441 shares in his personal capacity and an indirect shareholding through Triedward Investments (Private) Limited which owns 68 368 ordinary shares in RioZim Limited.

Building a better
working world

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## INDEPENDENT AUDITOR'S REPORT
## TO THE MEMBERS OF RIOZIM LIMITED

### Report on the Audit of the Consolidated Financial Statements

*Adverse Opinion*
We have audited the consolidated financial statements of RioZim Limited (the Group) set out on pages 33 to 89 which comprise the consolidated and company statements of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated and company statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated financial statements do not present fairly the consolidated and company financial position of RioZim Limited as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

*Basis for Adverse Opinion*
As explained in note 4.11 to the consolidated financial statements, the same are presented in United States Dollars (US$) on the basis that the official exchange rate as at 31 December 2018 between the Real Time Gross Settlement Electronic Dollar (RTGS$) and the United States Dollar (US$) is 1:1.

Zimbabwe witnessed significant monetary and exchange control policy changes in 2016 and increasingly through to 2019. The Reserve Bank of Zimbabwe (RBZ) together with the Ministry of Finance and Economic Development promulgated a series of exchange control operational guidelines and compliance frameworks during this period. Specifically, there was a requirement for banks to separate foreign currency accounts (FCAs) into two categories, namely RTGS FCA and Nostro FCA during October 2018. Although the rate was legally pegged at 1:1, multiple pricing practices and other transactions observed and reported publicly indicated exchange rates other than 1:1 between RTGS and the US$ amounts. Subsequently, in February 2019 there was a Monetary Policy statement which introduced the RTGS Dollar(RTGS$) and the interbank foreign exchange market.

These events triggered the need for entities to assess, among other things, whether the exchange rates used by the entities to translate transactions that occurred between 1 October and 31 December 2018 and closing balances as at 31 December 2018, where different modes of payment were used, were appropriate.

Based on International Financial Reporting Standards IAS 21 - *The Effects of Changes in Foreign Exchange Rates ("IAS 21") "If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made". In addition, paragraph 2.12 of the Conceptual Framework for Financial Reporting ("the Conceptual Framework") prescribes that for financial information to be useful, it "must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon."* In addition, International Financial Reporting Standards IAS10 - Events after the Reporting Period ("IAS 10") also requires an entity to adjust the amounts recognised in its financial statements to reflect events after the reporting period that provide evidence of conditions that existed at the end of the reporting period.

We believe that transaction in the market indicated a differential rate between the two currencies despite the legal 1:1 RTGS$:US$ exchange rate and that these differential rates already existed prior to the 31 December 2018 year end. This impacts the basis for measuring transactions that occurred between 01 October and 31 December 2018, the valuation of assets and liabilities at year end as well as the accounting for foreign exchange differences. We believe that the consolidated financial statements are required to be adjusted for these changes and that it is inappropriate to provide disclosures by way of notes as a proxy for adjusting the financial statements as this is not in conformity with IAS 10.

The financial statements of the group include balances and transactions denominated in RTGS$ that were not converted at an RTGS$: US$ exchange rate that reflects the economic substance of its value as required by International Financial Reporting Standards ("IFRS"). This is because management applied the legal rate of 1:1 as pronounced by Statutory Instrument 133 of 2016, Statutory Instrument 33 of 2019 and the Monetary Policy Statements of the 22nd of February 2018, 1st of October 2018 and 20th of February 2019. Management have provided more information on their approach in Note 4.11 and 33 to the consolidated financial statements.

In terms of IAS 21, foreign currency monetary items shall be translated using the closing rate, non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured. Foreign currency transactions shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

Therefore, had a different RTGS$:US$ exchange rate been determined and applied by management, most of the account balances and the information provided by way of notes to the accompanying financial statements, would have been materially different. Specifically, the line items impacted in the Statement of Financial Position include trade and other receivables, cash and cash equivalents, all non-current and current liabilities and all line items on the Statement of Profit or Loss and Other Comprehensive Income other than revenue.

Since opening and closing balances enter into the determination of the financial performance and cash flows, the statement of profit or loss and other comprehensive income, accumulated losses and the net cash flows from operating activities reported in the statement of cash flows are also impacted.

The effects of the departure from IFRS are therefore pervasive to the financial statements; however, this has not been quantified.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements of the Group. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

*Material Uncertainty Related to Going Concern*

We draw attention to Note 34 to the consolidated financial statements which indicate that the group's operations were significantly impacted by shortage of foreign currency in the current year which led to temporary closure of all the mines in the fourth quarter of the year and therefore negatively affected cashflows. As stated in the same note, these conditions, along with other matters as set forth therein, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified further in respect of this matter.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Adverse Opinion section and the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be a key audit matter to be communicated in our report. Our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our adverse audit opinion on the consolidated financial statements.

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| **Quantification (existence) of in-process metal inventories** | |
| In-process metal inventories as disclosed in Notes 4.8 and 18 to the consolidated financial statements are significant due to the magnitude of the balance in comparison to total assets (constituting 31% of total assets) as at 31 December 2018.<br><br>Determination of the quantities of in-process metal inventories involves estimation and the exercise of significant professional judgement and the process involves experts. The quantification of the in-process metal inventory is based on the estimation of the volume of material in the plant and applying metal content percentages as determined through assaying techniques. Estimation of the volume is carried out by the Group's metallurgical department and is corroborated by an external metallurgist who performs an independent and concurrent verification process of the quantities on hand.<br><br>As in prior years, the Empress Nickel Refinery continued to be under care and maintenance throughout the year. Despite the plant being inactive, in the current year management recovered and sold cobalt from this material which resulted in movement in the estimated inventory. Consistent with prior years, reliance was placed on the work of experts for the existence of in-process inventory.<br><br>The estimation of the volumes of in-process metal was considered significant to our audit due to the complex manner in which the volumes are determined which require involvement of experts. | Our procedures included the following:<br>▶ Attending and observing the year-end estimation process performed by the management's experts (internal and external).<br>▶ Assessing the objectivity, competence and capabilities of the experts by reviewing their qualifications and professional experience with reference to the work they perform for the Group.<br>▶ Reviewing the estimates of quantities of metals in process and assessing the reasonableness of the assumptions applied and the consistency of the methodology used in comparison to prior years.<br>▶ Reviewing management's theoretical throughput calculations of metal quantities and comparing these to the expert's estimated quantities and obtaining explanations from the metallurgists for any variances.<br>▶ Confirming the quantity of cobalt sold through review of deliveries to customers.<br>▶ Reviewing the financial statements for adequacy of disclosures related to the estimation process. |

*Other information*

The directors are responsible for the other information. Other information consists of the Chairman's Statement and the Directors Responsibility Statement which were obtained prior to the date of this report, and the Chief Executive Officer's Review, the Directors Report and the Statement of Corporate Governance that will be made available to us after that date. Other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements 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. As described in the Basis for Adverse Opinion section above, the Group did not comply with the requirements of IAS 21 – Effects of Changes in Foreign Exchange Rates. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the Directors' Report affected by the failure to comply with the referred standard.

*Responsibilities of the Directors for the Consolidated Financial Statements*

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act (Chapter 24:03), and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on Other Legal and Regulatory Requirements**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated financial statements have not in all material respects, been properly prepared in compliance with the disclosure requirements of and in the manner required by the Companies Act (Chapter 24:03).

The engagement partner on the audit resulting in this independent auditor's report is Mr. David Gwande (PAAB Practicing Certificate Number 132).

**ERNST & YOUNG**
**CHARTERED ACCOUNTANTS (ZIMBABWE)**
**REGISTERED PUBLIC AUDITORS**

**Harare**

**28 April 2019**

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

| | Notes | 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|---|
| Revenue | 7 | 75 414 | 88 855 |
| Cost of sales | | (62 000) | (60 576) |
| **Gross profit** | | **13 414** | **28 279** |
| Distribution and selling costs | | ( 116) | (126) |
| Administrative expenses | | (25 399) | (24 226) |
| Profit on disposal of property, plant and equipment | | 3 985 | - |
| Other income | 9 | 10 487 | 4 188 |
| **Operating profit** | 8 | **2 371** | **8 115** |
| **Net finance cost** | | **(7 056)** | **(6 524)** |
| Finance income | 10 | 35 | - |
| Finance cost | 11 | (7 091) | (6 524) |
| Share of profit from an associate | 12 | 1 515 | 1 387 |
| Bargain purchase gain | 6 | - | 4 963 |
| **(Loss)/profit before taxation** | | **(3 170)** | **7 941** |
| Income tax credit | 13 | 914 | 134 |
| **(Loss)/profit for the year** | | **(2 256)** | **8 075** |
| **Other comprehensive income/(loss) not to be reclassified to profit or loss:** | | | |
| Re-measurement (losses) /gains on defined benefit plans | 27 | (282) | 676 |
| Fair value gain/(loss) on other comprehensive income investments | 17.1 | 7 | (1) |
| Income tax effect | | (2) | - |
| **Net other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods** | | **(277)** | **675** |
| **Total other comprehensive (loss)/income for the year, net of tax** | | **(277)** | **675** |
| **Total comprehensive (loss)/income for the year** | | **(2 533)** | **8 750** |
| **(Loss)/profit for the year attributable to:** | | | |
| Owners of the parent | | (2 224) | 8 103 |
| Non-controlling interests | 22 | (32) | (28) |
| | | **(2 256)** | **8 075** |
| **Total comprehensive (loss)/profit attributable to:** | | | |
| Owners of the parent | | (2 501) | 8 778 |
| Non-controlling interests | 22 | (32) | (28) |
| | | **(2 533)** | **8 750** |
| **(Loss)/earnings per share (cents):** | | | |
| Basic | 14 | (1.82) | 6.64 |
| Diluted basic | 14 | (1.82) | 6.64 |

# STATEMENTS OF FINANCIAL POSITION

## AS AT 31 DECEMBER 2018

| | Notes | Group 2018 US$ 000 | Group 2017 US$ 000 | Company 2018 US$ 000 | Company 2017 US$ 000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non - current assets** | | | | | |
| Property, plant and equipment | 15 | 70 753 | 67 733 | 55 769 | 51 936 |
| Exploration evaluation and development assets | 16 | 18 315 | 17 386 | 17 249 | 16 311 |
| Investment in subsidiaries | 17.2 | - | - | 166 | 166 |
| Investment in associate company | 12 | 5 135 | 4 747 | 8 041 | 8 041 |
| Fair value through other comprehensive income investments | 17.1 | 178 | 201 | 178 | 201 |
| Deferred tax assets | 13 | 7 291 | 6 620 | 7 020 | 6 356 |
| **Total non-current assets** | | **101 672** | **96 687** | **88 423** | **83 011** |
| **Current assets** | | | | | |
| Inventories | 18 | 40 411 | 41 257 | 39 754 | 40 600 |
| Trade and other receivables | 19 | 19 896 | 13 689 | 26 798 | 18 899 |
| Loans and receivables | 17.3 | 8 | 8 | 8 | 8 |
| Cash and cash equivalents | 20 | 117 | 1 275 | 113 | 1 271 |
| **Total current assets** | | **60 432** | **56 229** | **66 673** | **60 778** |
| **Total assets** | | **162 104** | **152 916** | **155 096** | **143 789** |
| **EQUITY & LIABILITIES** | | | | | |
| **Shareholders' equity** | | | | | |
| Share capital | 21.3 | 1 345 | 1 345 | 1 345 | 1 345 |
| Share premium | 21.3 | 20 789 | 20 789 | 20 789 | 20 789 |
| Fair value through other comprehensive income reserve | 21.4 | 146 | 141 | 146 | 141 |
| Accumulated losses | 21.5 | (11 319) | (8 813) | (13 110) | (11 088) |
| **Equity attributable to equity holders of the parent** | | **10 961** | **13 462** | **9 170** | **11 187** |
| Non-controlling interests | 22 | (731) | ( 699) | - | - |
| **Total equity** | | **10 230** | **12 763** | **9 170** | **11 187** |
| **Non-current liabilities** | | | | | |
| Cumulative redeemable preference shares | 23 | 33 434 | 33 434 | 33 434 | 33 434 |
| Interest bearing loans and borrowings | 24 | 6 396 | 4 993 | 6 396 | 4 993 |
| Provisions | 25 | 2 765 | 2 620 | 1 216 | 1 231 |
| Fixed term payables | 26.2 | 7 900 | 7 733 | 7 900 | 7 222 |
| Deferred tax liabilities | 13 | 1 850 | 2 093 | - | - |
| Employee benefit liability | 27 | 947 | 706 | 947 | 706 |
| **Total non-current liabilities** | | **53 292** | **51 579** | **49 893** | **47 586** |
| **Current liabilities** | | | | | |
| Trade and other payables | 26.1 | 75 854 | 70 347 | 74 301 | 68 776 |
| Fixed term payables | 26.2 | 996 | 1 987 | - | - |
| Interest-bearing loans and borrowings | 24 | 21 732 | 16 240 | 21 732 | 16 240 |
| **Total current liabilities** | | **98 582** | **88 574** | **96 033** | **85 016** |
| **Total liabilities** | | **151 874** | **140 153** | **145 926** | **132 602** |
| **Total liabilities and shareholders' equity** | | **162 104** | **152 916** | **155 096** | **143 789** |

These financial statements were approved by the Board of Directors on 12 April 2019 and signed on its behalf by:

L Chihota
**Chairman**

B Nkomo
**Chief Executive Officer**

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31 DECEMBER 2018

| | Notes | 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Operating profit | | 2 371 | 8 115 |
| Adjustments to add/(deduct) non-cash items | | | |
| Depreciation of property, plant and equipment | 15 | 5 458 | 4 050 |
| Amortisation of exploration, evaluation and development assets | 16 | 1 320 | 1 228 |
| Profit on disposal of property, plant and equipment | 8 | (3 985) | - |
| Unrealised exchange (gain)/loss | 8 | (107) | 300 |
| (Decrease)/increase in mine rehabilitation provision | 25 | (117) | 71 |
| Net interest (income)/cost on defined benefit fund | 8 | (35) | 117 |
| Other non-cash income | | (2 243) | (705) |
| Working capital adjustments: | | | |
| Change in inventories | | 846 | 3 101 |
| Change in trade and other receivables | | 1 903 | (8 497) |
| Change in trade and other payables | | 5 071 | 6 099 |
| **Net cash flows from operating activities** | | **10 482** | **13 879** |
| **Cash flows from investing activities** | | | |
| Investment in exploration and evaluation assets | 16 | (2 249) | (3 301) |
| Additions to property, plant and equipment | 15 | (10 514) | (8 707) |
| Acquisition of a subsidiary, net of cash acquired | 6 | - | (2 925) |
| Proceeds from sale of loans and receivables | | - | 450 |
| Proceeds on disposal of property, plant and equipment | | 95 | - |
| Proceeds from sale of investments | | 40 | - |
| **Net cash used in investing activities** | | **(12 628)** | **(14 483)** |
| **Cash flow from financing activities** | | | |
| Inflows from borrowings | | 8 614 | 8 614 |
| Repayment of borrowings | | (6 347) | (5 126) |
| Interest paid | | (1 279) | (2 743) |
| **Net cash generated from financing activities** | | **988** | **745** |
| Net increase/(decrease) in cash and cash equivalents | | (1 158) | 141 |
| Cash and cash equivalents at beginning of period | | 1 275 | 1 134 |
| **Cash and cash equivalents at 31 December** | 20 | **117** | **1 275** |

# STATEMENTS OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2018

| Group | Attributable to equity holders of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital [Note 21.3] US$000 | Share premium [Note 21.3] US$000 | Fair Value through other comprehensive income reserve [Note 21.4] US$000 | Accumulated losses [Note 21.5] US$000 | Total US$000 | Non controlling interest [Note 22] US$000 | Total equity US$000 |
| **Balance as at 1 January 2017** | 1 345 | 20 789 | 142 | (17 592) | 4 684 | (671) | 4 013 |
| Profit / (loss) for the year | - | - | - | 8 103 | 8 103 | (28) | 8 075 |
| Other comprehensive (loss)/income net of tax | - | - | (1) | 676 | 675 | - | 675 |
| **Total comprehensive (loss) / income** | - | - | (1) | 8 779 | 8 778 | (28) | 8 750 |
| **Balance as at 31 December 2017** | 1 345 | 20 789 | 141 | (8 813) | 13 462 | (699) | 12 763 |
| Loss for the year | - | - | - | (2 224) | (2 224) | (32) | (2 256) |
| Other comprehensive income/(loss) net of tax | - | - | 5 | (282) | (277) | - | (277) |
| **Total comprehensive income / (loss)** | - | - | 5 | (2 506) | (2 501) | (32) | (2 533) |
| **Balance as at 31 December 2018** | 1 345 | 20 789 | 146 | (11 319) | 10 961 | (731) | 10 230 |

| Company | Share capital [Note 21.3] US$000 | Share premium [Note 21.3] US$000 | Fair value through other comprehensive income reserve [Note 21.4] US$000 | Accumulated losses [Note 21.5] US$000 | Total US$000 |
|---|---|---|---|---|---|
| **Balance as at 1 January 2017** | 1 345 | 20 789 | 142 | (14 028) | 8 248 |
| Profit for the year | - | - | - | 2 264 | 2 264 |
| Other comprehensive (loss)/income net of tax | - | - | (1) | 676 | 675 |
| **Total comprehensive (loss)/income** | - | - | (1) | 2 940 | 2 939 |
| **Balance as at 31 December 2017** | 1 345 | 20 789 | 141 | (11 088) | 11 187 |
| Loss for the year | - | - | - | (1 740) | (1 740) |
| Other comprehensive income net of tax | - | - | 5 | (282) | (277) |
| Total comprehensive income / (loss) | - | - | 5 | (2 022) | (2 017) |
| **Balance as at 31 December 2018** | 1 345 | 20 789 | 146 | (13 110) | 9 170 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 1. GENERAL INFORMATION

RioZim Limited ('the Company') and its subsidiaries (together 'the Group') are involved in mining and metallurgical operations in different locations in Zimbabwe. The Group has mining operations and a metallurgical plant.

The Company is a limited liability company incorporated and domiciled in Zimbabwe. The address of its registered office is 1 Kenilworth Road, Highlands, Harare.

The Company is listed on the Zimbabwe Stock Exchange. These financial statements were authorised for issue by the Board of Directors on 12 April 2019.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

Subsequent to year end, the Government issued SI 33 of 2019 on 22 February 2019 which prescribed an accounting treatment which was inconsistent with International Financial Reporting Standards (IFRS) IAS 21 *"Effects of changes in foreign exchange rates"* and the disclosure requirements of the Companies Act (Chapter 24:03). The Government also issued SI 41 of 2019 which prescribes that where International Financial Reporting Standards (IFRS) is not aligned to local laws, then local laws take precedence. Accordindly, in compliance with the requirements of SI 33 of 2019, it was impractical to comply with the full requirements of International Financial Reporting Standards (IFRS) due to non compliance with IAS 21 as more fully explained on Note 33. The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets that have been measured at fair value.

The consolidated financial statements are presented in United States dollars, and all values are rounded to the nearest thousand (US$000), except where otherwise indicated.

### 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2018. Subsidiaries are entities controlled by the Group. 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.

Specifically, the Group controls an investee if, and only if, the Group has all of the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The relevant activities are those which significantly affect the subsidiary's returns. The ability to approve the operating and capital budget of a subsidiary and the ability to appoint key management personnel are decisions that demonstrate that the Group has the existing rights to direct the relevant activities of a subsidiary.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. (Refer to note 22 for detailed disclosure on the Group's non-controlling interests). When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Investment in associate

An associate is an entity over which the Group has significant influence, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date (Refer to note 12 for detailed disclosure on the Group's associate). Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within 'Share of profit of an associate' in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

### 3.2 Foreign currencies

The Group's consolidated financial statements are presented in United States dollars, which is also its functional currency and the Group's presentation currency. The Group does not have any foreign operations.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. All exchange differences are taken to profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset and expense (or part of it) on the derecognition of a non-monetary asset, the date of the transaction is the date on which the Group initially recognises the non-monetary asset. If there are multiple payments, the Group determines the transaction date for each payment.

### 3.3 Property, plant and equipment

#### i) Initial Recognition

Construction in progress is stated at cost, net of accumulated impairment losses, if any. Upon completion of the mine construction phase, the assets are transferred into "Property, plant and equipment". Items of property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.3 Property, plant and equipment (Cont'd)

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and, for qualifying assets (where relevant), borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of a finance lease is also included in property, plant and equipment.

When a mine construction project moves into the production phase, the capitalisation of certain mine construction costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to mining asset additions, improvements or new developments, underground mine development or mineable reserve development.

When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to significant accounting judgements, estimates and assumptions (Note 4) and provisions (Note 25) for further information about the recognised decommissioning provision.

**ii) Subsequent measurement**

Land and buildings comprise factories, staff houses and offices. Land is not depreciated. Development costs are amortised over the life of the mine concerned. Depreciation on other assets is calculated using the straight-line method over their estimated useful lives, as follows:

| | |
|---|---|
| Furniture and fittings | 3 - 8 years |
| Heavy mobile equipment | 4 years |
| Motor vehicles | 3 - 5 years |
| Plant and equipment | shorter of economic life of asset and life of mine |
| Freehold buildings | 100 years |

No depreciation is charged when the carrying amounts of items of property, plant and equipment are equal or less than their residual values or when the item has not yet been brought into use (e.g. capital work in progress). An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

### 3.4 Stripping (waste removal) costs

As part of its mining operations, the Group incurs stripping (waste removal) costs both during the development phase and production phase of its operations. Stripping costs incurred in the development phase of a mine, before the production phase commences (development stripping), are capitalised as part of the cost of constructing the mine and subsequently amortised over its useful life using a Unit of Production (UOP) method. The capitalisation of development stripping costs ceases when the mine/component is commissioned and ready for use as intended by management.

Stripping activities undertaken during the production phase of a surface mine (production stripping) are accounted for as set out below:

After the commencement of production, further development of the mine may require a phase of unusually high stripping that is similar in nature to development phase stripping. The cost of such stripping is accounted for in the same way as development stripping (as outlined above).

Production stripping is generally considered to create two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where the benefits are realised in the form of improved access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a 'stripping activity asset', if the following criteria are met:

- future economic benefits (being improved access to the ore body) are probable.
- the component of the ore body for which access will be improved can be accurately identified.
- the costs associated with the improved access can be reliably measured.

If any of the criteria are not met, the production stripping costs are charged to profit or loss as operating costs as they are incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.4 Stripping (waste removal) costs (Cont'd)

In identifying components of the ore body, the Group works closely with the mining operations personnel for each mining operation to analyse each of the mine plans. Generally, a component will be a subset of the total ore body, and a mine may have several components. The mine plans, and therefore the identification of components, can vary between mines for a number of reasons. These include, but are not limited to: the type of commodity, the geological characteristics of the ore body, the geographical location, and/or financial considerations. Given the nature of the Group's operations, components are generally either major pushbacks or phases and they generally form part of a larger investment decision which requires Board approval.

The stripping activity asset is accounted for as an addition to, or an enhancement of, an existing mine asset, and is presented as part of 'Exploration and development assets' in the statement of financial position. This forms part of the total investment in the relevant cash generating unit(s), which is reviewed for impairment if events or changes of circumstances indicate that the carrying value may not be recoverable.

The stripping activity asset is subsequently amortised using the UOP method over the life of the identified component of the ore body that became more accessible as a result of the stripping activity. Economically recoverable reserves, which comprise proven and probable reserves, are used to determine the expected useful life of the identified component of the ore body. The stripping activity asset is then carried at cost less amortisation and any impairment losses.

### 3.5 Exploration, evaluation and development expenditure

#### 3.5.1 Exploration and evaluation expenditure

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves.

Exploration and evaluation activity includes:

- Researching and analysing historical exploration data.
- Gathering exploration data through geophysical studies.
- Exploratory drilling and sampling.
- Determining and examining the volume and grade of the resource.
- Surveying, transportation and infrastructure requirements.
- Conducting market and finance studies.

License costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit. Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to profit or loss as incurred, unless the Directors conclude that a future economic benefit is more likely than not to be realised. These costs include materials and fuel used, surveying costs, drilling costs and payments made to contractors.

In evaluating whether the expenditures meet the criteria to be capitalised, several different sources of information are used. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

If a project does not prove viable, all irrecoverable costs associated with the project are written off to profit or loss. When it is decided to proceed with development, any provisions made in previous years are reversed to the extent that the relevant costs are recoverable. If an undeveloped project is sold, any gain or loss is included in operating profit, such operations being a normal part of the Group's activities. Exploration and evaluation expenditure is capitalised net of proceeds from the sale of ore extracted during the exploration and evaluation phase. Where these proceeds exceed the exploration and evaluation costs, any excess income is recognised in profit or loss.

Exploration and evaluation assets are subsequently measured at cost less accumulated impairment losses, up until the mine starts producing, after which the cost less any accumulated impairment losses will be amortised over the life of the mine concerned.

#### 3.5.2 Development expenditure

If a project proves viable after the exploration and evaluation work completed to date supports the future development of a mine and such development receives appropriate approvals, all subsequent expenditure on the construction, installation or completion of infrastructure facilities including purchase cost of any machinery and equipment and any costs directly attributable to bringing the machinery and equipment into operation (freight, duties and taxes not recoverable from the tax authorities) are capitalised under 'Capital work in progress'.

Upon completion of the mine construction phase, the assets are transferred to 'Property, plant and equipment' if tangible, or to 'Exploration and development assets' if intangible. The items of property, plant and equipment and development costs are stated at cost, less accumulated depreciation/amortisation and accumulated impairment losses. The initial cost of the mine assets comprises purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and, for qualifying assets (where relevant), borrowing costs.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.6 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset or cash generating unit (CGU) may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in profit or loss in expense categories consistent with the function of the impaired asset.

In calculating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of at least five years or the expected useful life of the asset or CGU.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed either its recoverable amount, or the carrying amount that would have been determined, net of accumulated depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

### 3.7. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### i) Financial assets

#### Initial recognition and measurement

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially 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.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income (OCI), it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is performed at an instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a timeframe established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and cash equivalents, trade and other receivables, long term receivables and fair value through OCI investments.

#### Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through profit or loss
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.7 Financial instruments (Cont'd)

#### i) Financial assets (Cont'd)

***Financial assets at amortised cost (debt instruments)***
This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and:
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortised cost are subsequently measured at amortised cost using effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes loans, government treasury bills, 'Trade and other receivables' and 'Cash and cash equivalents' which are classified under current assets except for maturities greater than 12 months after the reporting date which are classified under non-current assets.

***Cash and cash equivalents***
Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

***Financial assets at fair value through profit or loss***
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category applies to the Group`s trade receivables with provisional pricing (quotational period). The "Quotational Period (QP)" is the period after the physical shipment of goods during which the sales price is subject to change based on fluctuations in quoted commodity market prices up to the date of final settlement. The QP can be between one to six months.

Given the exposure to the commodity price, these provisionally priced trade receivables will fail the cash flow characteristics test within IFRS 9 and will be required to be measured at fair value through profit or loss from initial recognition and until the date of settlement. Subsequent changes in fair value are recognised in profit or loss each period. Changes in fair value over, and until the end of the QP, are estimated by reference to updated forward market prices as well as taking into account relevant other fair value considerations as set out in IFRS 13, including interest rate and credit risk adjustments.

***Financial assets designated at fair value through OCI (equity investments)***
The Group's financial assets designated at fair value through OCI comprise equity investments. The Group elected to classify irrevocably its non-listed equity investments under this category.

After initial measurement, this category of financial assets is subsequently measured at fair value with unrealised gains or losses recognised in OCI. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI.

Equity instruments designated at fair value through OCI are not subject to impairment assessment.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.7 Financial instruments (Cont'd)

#### i) Financial assets (Cont'd)

**Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired or;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either: (a) the Group has transferred substantially all the risks and rewards of the asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group did not have any arrangements involving partial transfer of its rights to receive cash flows from a financial asset nor entered into any pass-through arrangements during the year.

**Impairment of financial assets**

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An allowance for expected credit losses (ECLs) is recognised when an impairment exists. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). Default events may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For trade and other receivables (not subject to provisional pricing), the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date, whilst for all other financial assets an impairment loss is adjusted directly on the carrying amount. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

*Financial assets designated at fair value through OCI (equity investments)*

Equity instruments designated at fair value through OCI are not subject to impairment assessment.

#### ii) Financial liabilities

**Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or financial liabilities at amortised cost net of directly attributable transaction costs.

**Subsequent measurement**

The measurement of financial liabilities depends on their classification, as described below:

**Financial liabilities at amortised cost**

The Group's loans and borrowings comprise interest-bearing loans and borrowings, fixed term payables and cumulative redeemable preference shares and trade and other payables.

Loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.7 Financial instruments (Cont'd)

#### ii) Financial liabilities (Cont'd)

Fees paid on establishment of facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

Cumulative Redeemable preference shares are non – current liabilities as the issuer cannot demand settlement within twelve months of the reporting date.

**Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are subsequently measured at amortised cost using the effective interest rate method.

**Derecognition**

A financial liability is derecognised when the associated obligation is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

### 3.8 Inventories

Gold, nickel, copper, cobalt, Platinum Group of Metals (PGMs) in concentrate, metal and minerals in circuit and ore stockpiles are physically measured or estimated and valued at the lower of cost and net realisable value. Net realisable value is the estimated future sales price of the product the entity expects to realise when the product is processed and sold, less estimated costs to complete production and bring the product to sale. Write downs to net realisable value and inventory losses are expensed to profit and loss in the period in which they occur.

Cost is determined by using the weighted-average method and comprises direct purchase costs and an appropriate portion of fixed and variable overhead costs, including depreciation and amortisation incurred in converting materials into finished goods, based on the normal production capacity. The cost of production is allocated to joint products using a ratio of weights at each month end. Separately identifiable costs of conversion of each metal are specifically allocated.

Materials and supplies are valued at the lower of cost or net realisable value. Any provision is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

### 3.9 Taxation

Income tax expense/credit represents the sum of the current tax and deferred tax.

#### i) Current tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. Taxable profit or assessed loss differs from profit/loss as reported in proft or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Current income tax relating to items recognised directly in OCI or equity is recognised in OCI or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### ii) Deferred tax

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

- Where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (tax loss).

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.9 Taxation (Cont'd)

#### ii) Deferred tax (Cont'd)

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in JVs, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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 reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

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

#### iii) Value Added Tax (VAT)

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

- Where the VAT incurred on a purchase of assets or services is not recoverable from the tax authorities, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of VAT included. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### 3.10 Employee benefits

#### Pension and other post-employment benefits

The Group has both defined benefit and defined contribution pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as an employee benefit expense when they are due.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee shall receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The cost of providing benefits under the defined benefit plan is determined annually by independent actuaries using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.10 Employee benefits (Cont'd)

Past service costs are recognised in profit or loss on the earlier of:
- The date of the plan amendment or curtailment, and
- The date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales' and 'administration expenses' in profit or loss:
- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.
- Net interest expense or income.

### 3.11 Provisions

#### i) General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as part of finance cost.

#### ii) Rehabilitation provision

Mine rehabilitation costs will be incurred by the Group either while operating, or at the end of the operating life of the Group's facilities and mine properties. The Group assesses its mine rehabilitation provision at each reporting date. The Group recognises a rehabilitation provision where it has a legal and constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The nature of these restoration activities includes: dismantling and removing structures; rehabilitating mines and tailings dams; dismantling operating facilities; closing plant and waste sites; and restoring, reclaiming and revegetating affected areas.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the mining operation's location. When the 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 as a result of the development/construction of the mine. Any rehabilitation obligations that arise through the production of inventory are recognised as part of the related inventory item.

Additional disturbances which arise due to further development/construction at the mine are recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur. Costs related to restoration of site damage (subsequent to start of commercial production) that is created on an ongoing basis during production are provided for at their net present values and recognised in profit or loss as extraction progresses.

Changes in the estimated timing of rehabilitation or changes to the estimated future costs are dealt with prospectively by recognising an adjustment to the rehabilitation liability and a corresponding adjustment to the asset to which it relates, if the initial estimate was originally recognised as part of an asset measured in accordance with IAS 16.

Any reduction in the rehabilitation liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss. If the change in estimate results in an increase in the rehabilitation liability and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment. If, for mature mines, the estimate for the revised mine assets net of rehabilitation provisions exceeds the recoverable value that portion of the increase is charged directly to expense.

Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in profit or loss as part of finance costs. For closed sites, changes to estimated costs are recognised immediately in profit or loss.

The Group recognises neither the deferred tax asset in respect of the temporary difference on the decommissioning liability nor the corresponding deferred tax liability in respect of the temporary difference on a decommissioning asset.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

## 3.12 Revenue from contracts with customers and other income

The Group is involved in mining and metallurgical operations and produces gold and metals. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Control of goods or services is transferred generally when the product is physically loaded onto a vessel, train, conveyor or other delivery mechanisms.

The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

### a) Gold bullion sales

Revenue from gold bullion sales is brought to account when control of the gold bullion has been transferred to the buyer and selling prices are known or can be reasonably estimated. The Company sells all its gold bullion to a local buyer, therefore revenue is recognised when the gold bullion is physically delivered to the buyer.

### b) Nickel, copper and other minerals in concentrate sales

The Group produces nickel, copper and other minerals in concentrate for sale to third parties. Metal sales are measured at the price agreed between RioZim and the buyer. Negotiations begin at London Metals Exchange (LME) market prices prevailing on the day. For the Group's metal in concentrate sales, the performance obligations are the delivery of the concentrate which is satisfied on the shipment date. The revenue is measured at the consideration to which the Group expects to be entitled in exchange for those metals.

Contract terms for the Group's sale of metal in concentrate to third parties allow for a price adjustment based on final assay results of the metal in concentrate by the customer to determine the final content. These are referred to as provisional pricing arrangements, and are such that the selling price for metal in concentrate is based on prevailing spot prices on a specified future date after shipment to the customer (the quotation period (QP)). The provisional pricing arrangements based on initial assays give rise to variable consideration.

The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty relating to the final assays is subsequently resolved. The Group estimates the amount of consideration to which it will be entitled in exchange for transferring metals in concentrate to the customer using provisional assays agreed by both parties. Adjustments to the sales price are done based on the final assays after final processing of the metal by the customer i.e. at the end of the QP. The period between provisional invoicing and final settlement can be between one to six months.

Revenue is recognised when control passes to the customer, which occurs at a point in time when the metal in concentrate is physically transferred onto a vessel, train, conveyor or other delivery mechanism. The revenue is measured at the amount to which the Group expects to be entitled, being the estimate of the price expected to be received at the end of the QP, and a corresponding trade receivable is recognised. The Group applies the practical expedient to not adjust the promised consideration for the effects of a significant financing component as the period between transfer of the metals to a customer and when the customer pays for the metals is one year or less.

For these provisional pricing arrangements, any future adjustments to the sales price based on movements in quoted market prices up to the date of final settlement over the QP are embedded within the provisionally priced trade receivables and are, therefore, within the scope of IFRS 9 and not within the scope of IFRS 15.

## 3.13 Other income

### a) Interest income

For all financial assets measured at amortised cost, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in profit or loss.

### b) Rental income

Rental income arising from operating leases on property, plant and equipment is accounted for on a straight-line basis over the lease terms and is included in other income in profit or loss.

### c) Export incentives

Export incentives are recognised when gold and metal sales are completed and the export proceeds have been received by the Company. The incentives are a percentage of all export receipts and are paid by the Central Bank.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

## 3.14 Fair value measurement

The Group measures financial instruments such as certain financial assets at fair value at each reporting date.

Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability.
  Or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described, as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

## 3.15 Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification.

An asset is current when it is either:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle.
- Held primarily for the purpose of trading.
- Expected to be realised within 12 months after the reporting period.
- 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 current when either:

- It is expected to be settled in the 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.
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other liabilities as non-current.

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.16 Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if 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 (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

#### Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

#### Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### 3.17 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### 3.18 Share capital

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. Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects is included in equity attributable to the Company's equity holders.

### 3.19 Adoption of new and revised accounting standards

#### i) New and amended standards and interpretations

The Group applied several other amendments and interpretations for the first time, which are effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Several other amendments and interpretations applied for the first time in 2018, but did not have an impact on the consolidated financial statements of the Group and, hence, have not been disclosed.

#### IFRS 15 Revenue from contracts with customers

The Group applied IFRS 15 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

The new revenue standard supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires enhanced and extensive disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.19 Adoption of new and revised accounting standards (Cont'd)

#### i) New and amended standards and interpretations (Cont'd)

**IFRS 15 Revenue from Contracts with Customers** (Cont'd)

The Group adopted IFRS 15 using the full retrospective method of adoption and, therefore, has restated its comparative information where applicable, and the impact is discussed further below in this note. The Group applied the practical expedient to not disclose the effect of the transition to IFRS 15 on the current period. It did not apply any of the other available optional transition practical expedients. The effect of adopting IFRS 15 identified the following issues that have been considered in the consolidated financial statements of the Group.

**Overall impact**

The Group's revenue from contracts with customers comprises two main streams being the sale of gold bullion and metal in concentrate. The Group undertook a comprehensive analysis of the impact of the new revenue standard based on a review of the contractual terms of its principal revenue streams with the primary focus being to understand whether the timing and amount of revenue recognised could differ under IFRS 15. For all of the Group's revenue streams, the amount and timing of revenue recognised under IFRS 15, is the same as that under IAS 18.

**Gold bullion sales**

There were no changes identified with respect to the timing or amount of revenue recognition. This was because all of the Group's gold bullion is sold to a local buyer under spot sales arrangements upon delivery to the buyer and the pricing is determined based on the gold price on the London Metal Exchange (LME) at the date specified in the contract.

**Metal in concentrate sales**

There were no changes identified with respect to the timing of revenue recognition in relation to metal in concentrate, as control transfers to customers at the date of shipment, which is consistent with the point in time when risks and rewards passed under IAS 18. Customers are responsible for shipping of the metals from the point of origin i.e. RioZim's premises. There were some reclassification changes arising from metal in concentrate sales that have provisional pricing terms (refer to 'provisionally priced commodity sales' below).

**Provisionally priced commodity sales**

Under IFRS 15, the accounting for this revenue will remain unchanged in that revenue will be recognised when control passes to the customer (which will continue to be the date of shipment) and will be measured at the amount to which the Group expects to be entitled. The provisional pricing arrangements based on initial assays give rise to variable consideration. The Group estimates the amount of consideration to which it will be entitled in exchange for transferring metals in concentrate to the customer using provisional assays agreed by both parties. Adjustments to the sales price are done based on the final assays after final processing of the metal by the customer i.e. at the end of the QP. Revenue recognised under IFRS 15 in relation to variable consideration is the same as under IAS 18. It will be the impact of the requirements of IFRS 9 that will lead to a change to the Group's accounting (refer to the IFRS 9 discussion further below).

The change did not have a material impact on profit or loss for the year and the statement of financial position. There was no net impact on the statement of cash flows. There was no impact on EPS.

**IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018 and adjusting the comparative information for the period beginning 1 January 2017. There were no material impacts on the comparative balances other than a change in classification and measurement of some receivables and the reclassification of the gain/(loss) on provisionally priced trade receivables. There was no impact on hedging as the Group does not apply hedge accounting.

The effects of adopting IFRS 9 are set out below.

Under IFRS 9, there is a change in the classification and measurement requirements relating to financial assets. Previously, there were four categories of financial assets: loans and receivables, fair value through profit or loss, held to maturity and available for sale. Under IFRS 9, financial assets are either classified as amortised cost, fair value through profit or loss or fair value through other comprehensive income. For debt instruments, the classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' (SPPI) on the principal amount outstanding. A financial asset can only be measured at amortised cost if both of the following are satisfied:

- Business model: the objective of the business model is to hold the financial asset for the collection of the contractual cash flows
- Contractual cash flows: the contractual cash flows under the instrument relate solely to payments of principal and interest

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

### 3.19 **Adoption of new and revised accounting standards** (Cont'd)

#### i) **New and amended standards and interpretations** (Cont'd)

**IFRS 9 Financial Instruments** (Cont'd)

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are SPPI was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group other than to change the presentation of balances relating to provisionally priced sales.

The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39. The following are the changes in the classification of the Group's financial assets:

Trade receivables (not subject to provisional pricing), other current financial assets (i.e. other receivables) previously classified as Loans and receivables: these were assessed as being held to collect contractual cash flows and give rise to cash flows representing SPPI. These are now classified and measured as debt instruments at amortised cost.

Trade receivables (subject to provisional pricing) and Quotational period derivatives: prior to the adoption of IFRS 9, the exposure of provisionally priced sales to commodity price movements over the QP, previously led to embedded derivatives (QP derivatives) being separated from the host trade receivable and accounted for separately. Under IFRS 9, embedded derivatives are no longer separated from financial assets. Instead, the exposure of the trade receivable to future commodity price movements will cause the trade receivable to fail the SPPI test. Therefore, the entire receivable is now required to be measured at fair value through profit or loss, with subsequent changes in fair value recognised in profit or loss each period until final settlement. The Group previously presented such fair value changes in 'Gains/ losses on derivative financial instruments' but will now present them as 'fair value gains/losses on provisionally priced trade receivables within revenue. The key impact was on presentation and disclosure, including the IFRS 13 Fair Value Measurement.

Equity Instruments: Under IAS 39 equity instruments were classified as available for sale financial assets with fair value going through OCI. Under IFRS 9 equity instruments are classified under "Fair Value through Other Comprehensive Income (FVOCI)" with no recycling of cumulative gains and losses upon derecognition.

**Financial liabilities**

The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

**Impairment**

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets in the scope of IFRS 15.

As all of the Group's trade receivables (not subject to provisional pricing) and other current receivables which the Group measures at amortised cost are short term (i.e. less than 12 months) and the Group's credit rating and risk management policies in place, the change to a forward-looking ECL approach did not have a material impact on the amounts recognised in the financial statements.

*IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. The Group applied the ammendment prospectively to all assets, expenses and income in its scope that are initially recognised in the current year. There was no impact to the comparative information as the Group's accounting treatment has been in line with the interpretation.

#### ii) **Standards issued but not yet effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements that the Group reasonably expects will have an impact on its disclosures, financial position or performance when applied at a future date, are disclosed below. The Group intends to adopt these standards when they become effective. Standards and interpretations that have been issued but are not yet effective, which do not have an impact to the Group have not been listed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### ii) Standards issued but not yet effective (Cont'd)

**IFRS 16 Leases**

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments).
The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group is still assessing the impact on its statement of financial position when the Group adopts IFRS 16.

**Amendments to IAS 19: Plan Amendment, Curtailment or Settlement**

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

**Annual Improvements 2015-2017 Cycle (issued in December 2017)**

These improvements include:

*IAS 23 Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### ii) Standards issued but not yet effective (Cont'd)

***IFRIC Interpretation 23 Uncertainty over Income Tax Treatment***

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. The Group's application of the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

**The Conceptual Framework for Financial Reporting**

Effective immediately for the IASB and the IFRS IC. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

The revised Conceptual Framework for Financial Reporting (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist the Board in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

The Conceptual Framework is accompanied by a Basis for Conclusions. The Board has also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the Conceptual Framework. In most cases, the standard references are updated to refer to the Conceptual Framework. There are exemptions in developing accounting policies for regulatory account balances for two standards, namely, IFRS 3 Business Combinations and for those applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In particular, the Group has identified the following areas where significant judgements, estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the financial statements.

### 4.1. Going concern

The Directors assess the ability of the Group to continue as a going concern at the end of each financial year. The assessment involves making assumptions in the budgets and forecasts. Refer to note 34 for more details.

### 4.2. Ore reserve and mineral resource estimates

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties. The Group estimates its ore 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 judgments to interpret the data.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Cont'd)

### 4.2. Ore reserve and mineral resource estimates (Cont'd)

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 the size and grade of the ore body. The Group estimates and reports ore reserves in line with the principles contained in the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (December 2012), which is prepared by the Joint Ore Reserves Committee (JORC) of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia, known as the "JORC Code."

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 price, forward prices and the Group's assessment of the long-term average price.
- 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 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 may change. Such changes may impact the Group's reported financial position and results which include:

- The carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, and goodwill may be affected due to changes in estimated future cash flows.
- Depreciation and amortisation charges in profit or loss may change where charges are determined using the useful life of the related assets.
- Provisions for rehabilitation and environmental provisions may change where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities.
- 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.

### 4.3. Exploration and evaluation expenditure

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgment to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves. The determination of a JORC resource is itself an estimation process that involves varying degrees of uncertainty depending on how the resources are classified (i.e. measured, indicated or inferred). The estimates directly impact when the Group defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Estimates and assumptions may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in profit or loss in the period when the new information becomes available. Refer to note 16 for the carrying amount of exploration, evaluation and development assets.

### 4.4. Depreciation

The Group's management determines the useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on projected lives of these assets. Estimated economically recoverable reserves are used in determining the depreciation and/or amortisation of mine specific assets. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated production over the remaining life of mine. Each item's life, which is assessed annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. Changes in estimates are accounted for prospectively. Refer to note 15 for the carrying amount of property, plant and equipment and accounting policy note 3.3 for the useful lives of property, plant and equipment.

### 4.5. Mine rehabilitation provision

The Group assesses its mine rehabilitation provision at each reporting date. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate amount payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates (2.75% (2017: 2%)), and changes in discount rates (10% (2017: 10%). These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required. Refer to Note 25 for the carrying amount of the provision for mine rehabilitation.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Cont'd)

### 4.6. Impairment of non-financial assets

Impairment assessments require the use of estimates and assumptions such as long-term commodity prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, closure and rehabilitation costs, exploration potential, reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs. In such circumstances, some or all of the carrying amount of the assets/CGUs may be further impaired or the impairment charge reduced with the impact recognised in profit or loss.

The assumptions made in calculating the value in use include:

- A forecast period of :
  - o 10 years for Renco Mine
  - o 5 years for Cam & Motor Mine
  - o 5 years for Dalny Mine
- Average prices for the next ten years: Gold - US$1 200 per ounce, Nickel- US$12 500 per tonne, Copper -US$7 000 per tonne.
- Discount rate of 10% per annum.
- Inflation rate of 2.75% per annum.

### 4.7 Recovery of deferred tax assets

Judgement is required in determining whether deferred tax assets should be recognised in the statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods. Refer to Note 13 for the carrying amount of deferred tax asset recognised.

### 4.8 Inventories

Net realisable value tests are performed at each reporting date and represent the estimated future sales price of the product the entity expects to realise when the product is processed and sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted. Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained gold ounces is based on assay data, and the estimated recovery percentage is based on the expected processing method. Stockpile tonnages are verified by periodic surveys. Refer to Note 18 for the carrying amount of inventory.

Empress Nickel Refinery (ENR) has metal inventory in various stages of production. In process metal inventory quantities are determined by estimating the volumes of metal bearing material in the plant and applying the estimated contained metal percentages determined through assaying techniques. Estimation of the volumes is carried out by the Group's metallurgical department and assaying is done by the Chemists using methods that are believed to be appropriate for the different metals. The determination of both the volumes and the assays involves the exercise of significant professional judgements and the use of estimates. The plant has remained under care and maintenance and inventory from prior years has remained.

### 4.9 Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation. IAS 19 requires that the discount rate is set based on the market yield on high quality corporate bonds, or government bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used. Zimbabwe does not have an active liquid market for corporate bonds or government bonds. However, recent bonds issued during 2016-2018 were subscribed for yields of ranging from 5% per annum to 10% per annum. A discount rate of 7% was therefore used. Other key assumptions for pension obligations are based in part on current market conditions. Refer to Note 27 for the carrying amount of the defined benefit obligation and more information on the estimates and assumptions used.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Cont'd)

### 4.10 Contingencies

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events. Refer to note 32.

### 4.11 Functional currency

The Zimbabwean Government adopted the multi-currency system in 2009 and USD became the dominant currency, therefore companies in Zimbabwe including the Group adopted USD as the functional and presentation currency. The persistent shortage of foreign currency subsequent to 2009 resulted in numerous monetary policy changes amongst them introduction of bond notes at an exchange rate of 1:1 with the US$ in November 2016, separation of RTGS FCAs and Nostro FCAs in October 2018 and the conversion of RTGS FCAs into a local currency RTGS$ in February 2019. The determination of the Group's functional currency under this dynamic environment requires significant judgement.

In determining the functional currency, the Group took into consideration IAS 21.9: *"The Effects of Changes in Foreign Exchange Rates"* vis-a-vis (a) the currency that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled), (b) the currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services, and (c) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

The Group determined that its functional currency remained USD.

### 4.12 Determination of material partly-owned subsidiaries

The Group holds 50% interest in Sengwa Colliery (Private) Limited which is located in Gokwe North. RZ Murowa Holding (Private) Limited holds the remaining 50% interest. The Group has the majority representation on the Board as well as the management contract.

Furthermore, the Group's approval is required for all operational decisions and based on this, management determined that in substance, the Group controls this entity with RZ Murowa Holding (Private) Limited constituting the non-controlling interest. Refer to Note 22 for the information on the material partly-owned subsidiaries.

### 4.13 Stripping (waste removal) costs

Significant judgement is required to distinguish between development stripping and production stripping and to distinguish between the production stripping that relates to the extraction of inventory and that which relates to the creation of a stripping activity asset.

Once the Group has identified its production stripping for each surface mining operation, it identifies the separate components of the ore bodies for each of its mining operations. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Significant judgement is required to identify and define these components, and also to determine the expected volumes (e.g. in tonnes) of waste to be stripped and ore to be mined in each of these components.

These assessments are undertaken for each individual mining operation based on the information available in the mine plan. The mine plans and, therefore, the identification of components, will vary between mines for a number of reasons. These include, but are not limited to, the type of commodity, the geological characteristics of the ore body, the geographical location and/or financial considerations.

Judgement is also required to identify a suitable production measure to be used to allocate production stripping costs between inventory and any stripping activity asset(s) for each component. The Group considers that the ratio of the expected volume (e.g. in tonnes) of waste to be stripped for an expected volume (e.g. in tonnes) of ore to be mined for a specific component of the ore body, is the most suitable production measure.

Furthermore, judgements and estimates are also used to apply the UOP method in determining the depreciable lives of the stripping activity asset(s).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## 5 OPERATING SEGMENT INFORMATION

Management has determined the Group's operating segments based on the information reviewed by the Board for the purpose of allocating resources and assessing performance. The revenue, operating profit, assets and liabilities reported to the Board are measured consistently with those in the reported consolidated financial statements.

**Gold segment**

This operating segment develops and mines gold that is ultimately sold as gold bullion.

**Base metals segment**

This operating segment comprises of base metals refining facilities.

The Group management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, the Group's financing (finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Year ended 31 December 2018

| | Gold US$ 000 | Base Metals US$ 000 | Adjustments and elimations US$ 000 | Consolidated US$ 000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| External customers | 72 003 | 3 411 | - | 75 414 |
| **Total revenue** | **72 003** | **3 411** | **-** | **75 414** |
| **Results** | | | | |
| Depreciation *( note i)* | (4 445) | ( 803) | ( 210) | (5 458) |
| Amortisation of development costs *( note i)* | (1 320) | - | - | (1 320) |
| **Segment profit / (loss)** *(note ii)* | **10 898** | **(4 707)** | **(3 820)** | **2 371** |
| Net finance cost | - | - | - | (7 056) |
| Share of associate profit | - | - | - | 1 515 |
| Income tax credit | - | - | - | 914 |
| **Loss for the year** | **-** | **-** | **-** | **(2 256)** |
| Segment assets *(note iii)* | 86 900 | 40 412 | 34 792 | 162 104 |
| Segment liabilities *(note iv)* | 26 962 | 43 600 | 81 312 | 151 874 |
| Investment in an associate | - | - | 5 135 | 5 135 |
| **Other disclosures** | | | | |
| Capital expenditure *(note v)* | 12 635 | - | 128 | 12 763 |

i) Represents depreciation of property, plant and equipment and amortisation of development costs.

ii) Profit/(loss) for each operating segment does not include net finance costs of US$7 056 000.

iii) Segment assets do not include deferred tax assets of US$7 291 000, subsidiary assets of US$807 000, and Head Office assets of US$26 694 000 as these assets are managed on a Group basis.

iv) Segment liabilities do not include interest-bearing loans and borrowings of US$61 562 000 as these liabilities are managed on a Group basis.

v) Capital expenditure consists of additions to property, plant and equipment, mine properties, exploration, evaluation and development assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## 5 OPERATING SEGMENT INFORMATION (Cont'd)

Year ended 31 December 2017

| | Gold US$ 000 | Base Metals US$ 000 | Adjustments and elimations US$ 000 | Consolidated US$ 000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| External customers | 79 981 | 8 874 | - | 88 855 |
| **Total revenue** | **79 981** | **8 874** | **-** | **88 855** |
| **Results** | | | | |
| Depreciation *(note i)* | (3 024) | ( 836) | ( 190) | (4 050) |
| Amortisation of development costs *(note i)* | (1 228) | - | - | (1 228) |
| **Segment profit** *(note ii)* | **14 264** | **701** | **(6 850)** | **8 115** |
| Net finance cost | | | | (6 524) |
| Share of associate profit | | | | 1 387 |
| Gains on acquisition of a subsidiary | | | | 4 963 |
| Income tax credit | | | | 134 |
| **Profit for the year** | | | | **8 075** |
| Segment assets *(note iii)* | 80 170 | 45 436 | 27 310 | 152 916 |
| Segment liabilities *(note iv)* | 23 350 | 42 364 | 74 439 | 140 153 |
| Investment in an associate | - | - | 4 747 | 4 747 |
| **Other disclosures** | | | | |
| Capital expenditure *(note v)* | 11 249 | 5 | 754 | 12 008 |

i) Represents depreciation of property, plant and equipment and amortisation of development costs.

ii) Profit for each operating segment does not include finance costs of US$6 524 000.

iii) Segment assets do not include deferred tax assets of US$6 620 000, subsidiary assets of US$1 973 000, and Head Office assets of US$18 717 000 as these assets are managed on a Group basis.

iv) Segment liabilities do not include interest-bearing loans and borrowings of US$54 667 000 as these liabilities are managed on a Group basis.

v) Capital expenditure consists of additions to property, plant and equipment, mine properties, exploration, evaluation and development assets.

### Geographic information and information about major customers

All the Group's operations are located in Zimbabwe and they are situated in two geographical locations, Masvingo Province and Mashonaland West Province.

Revenue from one customer in the gold segment amounted to US$72 003 000 (2017:US$79 981 000 ) and revenue from customers in the base metals segment amounted to US$3 411 000 (2017: US$8 816 000).

Revenues from external customers are based on the locations of the customers:

The bulk of the base metals are purchased by the European market. Base metal sales to local buyers were nil (2017: US$58 000). Gold is solely purchased by Fidelity Printers and Refineries (Private) Limited of Zimbabwe.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

5 OPERATING SEGMENT INFORMATION (Cont'd)

| | 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|
| Zimbabwe | 72 003 | 80 039 |
| External customers | | |
| Europe | 3 411 | 8 816 |
| **Total revenue per consolidated statement of comprehensive income** | **75 414** | **88 855** |

6 BUSINESS COMBINATIONS

**Acquisition of Palatial Gold Investments (Private) Limited**

On 1 June 2017, the Group through its wholly owned subsidiary, RioGold (Private) Limited ('RioGold') acquired 100% of the voting shares of Palatial Gold Investments (Private) Limited ('Palatial Gold') an unlisted company which owns Dalny Mine Complex, a mining operation based in Chakari mining area, in the province of Mashonaland West, Zimbabwe. The Dalny Mine Complex is a mining operation comprising of a gold processing plant and equipment, mining claims, mining infrastructure and mine compound.

The Group acquired Palatial Gold because it has attractive and vast explorative resources which it believes can be exploited and mined profitably. This acqusation was in line with the Group's key strategy of exploring for new opportunities in an effort to consolidate, expand and strengthen its gold operations.

The acquisition was accounted for using the acquisition method.

**Assets acquired and liabilities assumed**

The fair values of the identifiable assets and liabilities of Palatial Gold Investments (Private) Limited as at the date of acquisition were:

| | Fair value recognised on acquisition 2018 US$ 000 | Fair value recognised on acquisition 2017 US$ 000 |
|---|---|---|
| **Assets** | | |
| Property, plant and equipment | - | 14 940 |
| Exploration, evaluation and development assets | - | 348 |
| Cash and bank balances | - | 3 |
| Trade and other receivables | - | 250 |
| Inventories | - | 658 |
| | - | **16 199** |
| **Liabilities** | | |
| Trade and other payables | - | 1 978 |
| Mine rehabilitation provision | - | 1 259 |
| Deferred tax | - | 2 251 |
| | - | **5 488** |
| **Total identifiable net assets at fair value** | **-** | **10 711** |
| Purchase consideration | - | 5 748 |
| **Bargain purchase gain** | **-** | **4 963** |

The purchase consideration of US$6 022 000 had the following payment terms: - US$2 000 000 payable 30 days after fulfilment of conditions precedents, US$3 000 000 through 12 months installments of US$250 000 each and the balance no later than 24 (twenty-four) months after the initial payment.

The cash outflow net of cash acquired in the year of acquisition 2017 was US$2 925 000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

## 7 REVENUE

| | 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|
| Gold | 72 003 | 79 981 |
| Nickel | - | 150 |
| Copper | 73 | 58 |
| PGM's | - | 1 141 |
| Matte | 2 709 | 6 069 |
| Cobalt | 905 | - |
| Fair value (loss)/gain on provisionally priced trade receivables | (276) | 1 456 |
| **Total revenue** | **75 414** | **88 855** |

## 8 OPERATING PROFIT

Operating profit is stated after (charging)/ crediting:

| | 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|
| Employee benefits: | | |
| -Salaries and Wages | (18 535) | (17 727) |
| -Pension costs | (1 537) | (1 448) |
| -Other | (4 233) | (3 453) |
| Audit remuneration: | | |
| -Current year | (25) | (22) |
| -Prior year | (156) | (145) |
| Exploration and claims cost | (315) | (707) |
| Net interest income/(cost) on defined benefit fund | 35 | (117) |
| Directors' emoluments | (204) | (181) |
| Minimum lease payments recognised as an operating lease expense | (183) | (702) |
| Write down of inventory | (375) | - |
| Depreciation (Note 15) | (5 458) | (4 050) |
| Amortisation (Note 16) | (1 320) | (1 228) |
| Profit/(Loss) on sale of property, plant and equipment | 3 985 | - |
| Net unrealised foreign exchange gain/ (loss) | 107 | (300) |
| Discount on treasury bills | - | (228) |

These costs include items included in cost of sales

## 9 OTHER INCOME

| | 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|
| Income from rentals, clinic and clubs | 286 | 234 |
| Export incentives | 7 796 | 2 521 |
| Sundry income | 2 405 | 1 433 |
| | **10 487** | **4 188** |

The export incentives were introduced by the Reserve Bank of Zimbabwe in February 2016 and were paid to large scale gold producers at a rate of 2.5% of the gold proceeds in 2017 and were revised to 10% in 2018.

Sundry income includes management fees from associate, scrap sales and write-down of liabilities upon settlement.

## 10 FINANCE INCOME

| | 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|
| Interest income from other receivables | 35 | - |
| | 35 | - |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## 11 FINANCE COST

| | 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|
| Interest on loans and borrowings | 2 178 | 2 094 |
| Interest on cumulative redeemable preference shares | 3 318 | 3 140 |
| Interest on fixed term payables | 673 | 619 |
| Unwinding of discount on mine rehabilitation provision | 262 | 117 |
| Interest on other payables | 660 | 554 |
| | **7 091** | **6 524** |

The average cost of debt for 2018 was 10% per annum (2017 : 10%).

## 12 INVESTMENT IN ASSOCIATE

The Group has a 22.2% (2017: 22.2%) interest in Murowa Diamonds (Private) Limited, an unlisted diamond mining company, operating in Zimbabwe.

The Group's interest in Murowa Diamonds (Private) Limited is accounted for using the equity method in the consolidated financial statements

The following table illustrates the summarised financial information of Murowa Diamonds (Private) Limited:

| | | |
|---|---|---|
| **Associate's statement of financial position:** | | |
| Current assets | 57 138 | 44 337 |
| Non-current assets | 32 400 | 25 793 |
| Current liabilities | (47 715) | (37 503) |
| Non-current liabilities | (18 634) | (16 262) |
| **Equity** | **23 189** | **16 365** |
| Share of net assets | 5 147 | 3 633 |
| **Reconciliation of carrying amount of investments to share of net assets:** | | |
| Share of net assets | 5 148 | 3 633 |
| Unrealised profit on disposals | (1 127) | - |
| Impact of deemed cost on currency conversion | 1 114 | 1 114 |
| **Carrying amount of the investment** | **5 135** | **4 747** |
| **Summarised statement of profit or loss of Murowa Diamonds (Private) Limited:** | | |
| Revenue | 83 861 | 79 642 |
| Cost of sales | (47 202) | (43 559) |
| Administrative and selling & distribution expenses | (20 928) | (20 066) |
| Finance cost | (3 223) | (4 029) |
| **Profit before tax** | **12 508** | **11 988** |
| Income tax (expense)/credit | (5 684) | (5 742) |
| **Profit for the year** | **6 824** | **6 246** |
| Other comprehensive income | - | - |
| **Total comprehensive profit** | **6 824** | **6 246** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## 12 INVESTMENT IN ASSOCIATE (Cont'd)

| | 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|
| Group's share of profit/(loss) for the year | 1 515 | 1 387 |
| **Carrying amount of the investment** | | |
| At 1 January | 4 747 | 3 360 |
| Unrealised profit on disposals | (1 127) | - |
| Share of profit/(loss) for the year | 1 515 | 1 387 |
| **At 31 December** | **5 135** | **4 747** |

Investment in associate is accounted for at cost at company level at a value of US$ 8 041 000. This treatment is consistent with prior year.

The Group has performed an impairment assessment of its investment in associate and concluded that the investment is not impaired.

## 13 INCOME TAX

The major components of income tax expense are as follows :

| | 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|
| **Profit or loss** | | |
| Deferred tax: | | |
| Relating to origination and reversal of temporary differences | (914) | (134) |
| **Income tax credit reported in the statement of profit or loss** | **(914)** | **(134)** |
| **Other comprehensive income (OCI)** | | |
| Deferred tax related to items recognised in OCI during the year: | | |
| Fair value gains on Fair value through other comprehensive income investments | 2 | - |
| **Income tax charged to OCI** | **2** | **-** |

Reconciliation of tax expense and the accounting profit multiplied by RioZim' s domestic tax rate for the years ended 31 December 2018 and 2017:

| | 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|
| (Loss)/profit before tax | (3 170) | 7 941 |
| At RioZim' s statutory income tax rate of 25.75% (2017: 25.75%) | (816) | 2 045 |
| Tax effects of: | | |
| - Associate results reported net of tax | (390) | (357) |
| - Gain on acquisition | - | (1 277) |
| Non deductible interest expense | - | 573 |
| -Non-deductible expenses | 1 247 | 1 368 |
| -Unrecognised tax losses | 1 285 | ( 846) |
| Utilisation of unrecognised tax losses | - | (1 083) |
| -Non taxable income | (2 176) | (635) |
| -Other | (64) | 78 |
| **Tax credit** | **(914)** | **(134)** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

## 13 INCOME TAX (Cont'd)

| | Consolidated statement of financial position | | Consolidated statement of comprehensive income | |
|---|---|---|---|---|
| | 2018 US$ 000 | 2017 US$ 000 | 2018 US$ 000 | 2017 US$ 000 |
| **DEFERRED INCOME TAX** | | | | |
| Deferred tax relates to the following: | | | | |
| Exploration and evaluation assets | (4 716) | (4 477) | (239) | 3 313 |
| Property, plant and equipment | (18 471) | (17 304) | (1 167) | (5 635) |
| Other | 386 | 118 | 269 | 74 |
| Investment in associate | 257 | 237 | 19 | 422 |
| Losses available for offset against future taxable income | 26 326 | 24 360 | 1 967 | 1 354 |
| Provisions | 1 659 | 1 593 | 65 | 606 |
| **Net deferred tax assets** | **5 441** | **4 527** | | |
| **Deferred income tax** | | | **914** | **134** |
| **Reflected in the consolidated statement of financial position as follows:** | | | | |
| Deferred tax assets | 7 291 | 6 620 | | |
| Deferred tax liabilities | (1 850) | (2 093) | | |
| **Defered tax asset (net)** | **5 441** | **4 527** | | |
| **Reconciliation of deferred tax asset (net)** | | | | |
| Opening 1 January | 4 527 | 6 644 | | |
| Tax income during the period recognised in profit or loss | 914 | 134 | | |
| Deferred tax arising from acquisition of Palatial Gold | - | ( 2 251) | | |
| **Closing balance as at 31 December** | **5 441** | **4 527** | | |

Deferred income tax assets are recognised for the carry forward of unused tax losses to the extent that it is probable that taxable profits will be available against which the unused tax losses can be utilised.

The Company has a deferred income tax asset amounting to US$7 020 000 (2017: US$6 356 000)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

## 13 INCOME TAX (Cont'd)

### Tax losses

The Group has a balance relating to an estimated tax loss for normal tax purposes for which no deferred tax asset has been recognised, due to uncertainty regarding the probability of future taxable profits. Unrecognised tax losses are carried forward indefinately. The unrecognised tax losses are as follows:

| | 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|
| Accumulated tax losses | 121 166 | 102 328 |
| Recognised tax losses for which a deferred tax asset has been recognised | (102 239) | (88 393) |
| Unutilised tax losses for which no deferred tax asset has been recognised | **18 927** | **13 935** |

Based on the business plans and strategies established, the Group is undergoing a restructuring exercise that would result in the utilisation of the tax losses. The Group has established new subsidiaries and will transfer assets at fair value to the subsidiaries resulting in recoupment that will be used to set off against the tax losses.

## 14 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the net profit attributable to the ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year excluding treasury shares.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to the ordinary equity holders of the Group after adjusting for impact of dilutive instruments.

Headline earnings per share amounts are calculated by dividing the net profit attributable to ordinay equity holders of the Group adjusted for profits, losses and items of capital nature that do not form part of the ordinary activities of the Group.

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

| | 2018 US$000 | 2017 US$000 |
|---|---|---|
| (Loss)/profit attributable to equity holders of the parent for basic earnings | (2 224) | 8 103 |
| **Adjustment for headline earnings** | | |
| Profit on disposal of property, plant and equipment | (3 985) | - |
| Gain on bargain purchase | - | (4 963) |
| **Headline earnings** | **(6 209)** | **3 140** |
| **Weighted average number of ordinary shares for earnings per share** | | |
| Number of issued shares | '000 | '000 |
| **As at 31 December** | **122 030** | **122 030** |
| **Weighted average number of ordinary shares** | **122 030** | **122 030** |
| **(Loss)/earnings per share (cents)** | | |
| Basic | (1.82) | 6.64 |
| Diluted basic | (1.82) | 6.64 |
| Headline | (5.09) | 2.57 |
| Diluted Headline | (5.09) | 2.57 |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

## 15 PROPERTY, PLANT AND EQUIPMENT

| GROUP | Land and buildings US$000 | Plant and equipment US$000 | Heavy mobile equipment US$000 | Capital work in progress US$000 | Motor vehicles US$000 | Furniture & fittings US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **At 1 January 2017** | **26 447** | **32 693** | **-** | **1 130** | **1 637** | **989** | **62 896** |
| Additions | 13 | 3 392 | - | 5 134 | 79 | 89 | 8 707 |
| Acquisition of subsidiary | 8 997 | 5 901 | - | - | 34 | 8 | 14 940 |
| Transfers | 126 | 789 | - | (928) | - | 13 | - |
| **At 31 December 2017** | **35 583** | **42 775** | **-** | **5 336** | **1 750** | **1 099** | **86 543** |
| Additions | 140 | 2 913 | 5 801 | 1 022 | 83 | 555 | 10 514 |
| Transfers | - | (858) | 858 | - | - | - | - |
| Disposals | - | - | (2 201) | - | (71) | - | (2 272) |
| **At 31 December 2018** | **35 723** | **44 830** | **4 458** | **6 358** | **1 762** | **1 654** | **94 785** |
| | | | | | | | |
| **Accumulated Depreciation** | | | | | | | |
| **At 1 January 2017** | **2 510** | **10 520** | **-** | **-** | **1 199** | **531** | **14 760** |
| Depreciation charge for the year | 783 | 2 833 | - | - | 249 | 185 | 4 050 |
| **At 31 December 2017** | **3 293** | **13 353** | **-** | **-** | **1 448** | **716** | **18 810** |
| Depreciation charge for the year | 973 | 3 414 | 691 | - | 219 | 161 | 5 458 |
| Transfers | - | (70) | 70 | - | - | - | - |
| Disposals | - | - | (223) | - | (13) | - | (236) |
| **At 31 December 2018** | **4 266** | **16 697** | **538** | **-** | **1 654** | **877** | **24 032** |
| | | | | | | | |
| **Net book value** | | | | | | | |
| **At 31 December 2017** | **32 290** | **29 422** | **-** | **5 336** | **302** | **383** | **67 733** |
| **At 31 December 2018** | **31 457** | **28 133** | **3 920** | **6 358** | **108** | **777** | **70 753** |
| | | | | | | | |
| COMPANY | | | | | | | |
| **At 1 January 2017** | **26 581** | **32 677** | **-** | **1 130** | **1 637** | **972** | **62 997** |
| Additions | 13 | 3 392 | - | 5 133 | 79 | 89 | 8 706 |
| Transfers | 126 | 789 | - | ( 928) | - | 13 | - |
| **At 31 December 2017** | **26 720** | **36 858** | **-** | **5 335** | **1 716** | **1 074** | **71 703** |
| Additions | 140 | 2 913 | 5 801 | 1 022 | 83 | 555 | 10 514 |
| Transfers | - | (858) | 858 | - | - | - | - |
| Disposals | - | - | (2 201) | - | (71) | - | (2 272) |
| **At 31 December 2018** | **26 860** | **38 913** | **4 458** | **6 357** | **1 728** | **1 629** | **79 945** |
| | | | | | | | |
| **Accumulated Depreciation** | | | | | | | |
| **At 1 January 2017** | **4 064** | **10 504** | **-** | **-** | **1 196** | **515** | **16 279** |
| Depreciation charge for the year | 486 | 2 576 | - | - | 244 | 182 | 3 488 |
| **At 31 December 2017** | **4 550** | **13 080** | **-** | **-** | **1 440** | **697** | **19 767** |
| Depreciation charge for the year | 489 | 3 097 | 691 | - | 211 | 157 | 4 645 |
| Transfers | - | (70) | 70 | - | - | - | - |
| Disposals | - | - | (223) | - | (13) | - | (236) |
| **At 31 December 2018** | **5 039** | **16 107** | **538** | **-** | **1 638** | **854** | **24 176** |
| | | | | | | | |
| **Net book value** | | | | | | | |
| **At 31 December 2017** | **22 170** | **23 778** | **-** | **5 335** | **276** | **377** | **51 936** |
| **At 31 December 2018** | **21 821** | **22 806** | **3 920** | **6 357** | **90** | **775** | **55 769** |

Group depreciation expense of US$2 607 000 (2017:US$2 088 000) has been charged in 'cost of sales' and US$2 851 000 (2017: US$1 962 000) in 'administrative expenses.

Included in property plant and equipment above is immovable property of US$1 245 000 that has been secured with a mortgage bond against a bank loan.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

## 16 EXPLORATION, EVALUATION AND DEVELOPMENT ASSETS

| GROUP | Exploration and evaluation assets US$ 000 | Development costs US$ 000 | Total exploration, evaluation and development assets US$ 000 |
|---|---|---|---|
| **Cost** | | | |
| **At 1 January 2017** | **6 411** | **11 273** | **17 684** |
| Additions | - | 3 301 | 3 301 |
| Acquisition of a subsidiary | - | 348 | 348 |
| **At 31 December 2017** | **6 411** | **14 922** | **21 333** |
| Additions | - | 2 249 | 2 249 |
| **At 31 December 2018** | **6 411** | **17 171** | **23 582** |
| **Amortisation** | | | |
| **At 1 January 2017** | **-** | **2 719** | **2 719** |
| Amortisation for the year | - | 1 228 | 1 228 |
| **At 31 December 2017** | **-** | **3 947** | **3 947** |
| Amortisation for the year | - | 1 320 | 1 320 |
| **At 31 December 2018** | **-** | **5 267** | **5 267** |
| **Carrying amount** | | | |
| **At 31 December 2017** | **6 411** | **10 975** | **17 386** |
| **At 31 December 2018** | **6 411** | **11 904** | **18 315** |
| COMPANY | | | |
| **Cost** | | | |
| **At 1 January 2017** | **6 411** | **10 546** | **16 957** |
| Additions | - | 3 301 | 3 301 |
| **At 31 December 2017** | **6 411** | **13 847** | **20 258** |
| Additions | - | 2 249 | 2 249 |
| **At 31 December 2018** | **6 411** | **16 096** | **22 507** |
| **Amortisation** | | | |
| **At 1 January 2017** | **-** | **2 719** | **2 719** |
| Amortisation for the year | - | 1 228 | 1 228 |
| **At 31 December 2017** | **-** | **3 947** | **3 947** |
| Amortisation for the year | - | 1 311 | 1 311 |
| **At 31 December 2018** | **-** | **5 258** | **5 258** |
| **Carrying amount** | | | |
| **At 31 December 2017** | **6 411** | **9 900** | **16 311** |
| **At 31 December 2018** | **6 411** | **10 838** | **17 249** |

The exploration and evaluation assets consist of capitalised costs for work done on the Group's One Step ore resource. There are plans to mine the resource profitably in the future.

## 17 INVESTMENTS

### 17.1 Fair value through other comprehensive income investments

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | US$ 000 | US$ 000 | US$ 000 | US$ 000 |
| At 1 January | 201 | 202 | 201 | 202 |
| Fair value adjustment | 7 | (1) | 7 | (1 ) |
| Disposal | (30) | - | (30) | - |
| At 31 December | 178 | 201 | 178 | 201 |

The fair value through other comprehensive income equity instruments comprise of the Group's investment of 1.553% in a medical investment company. Investments in a boat syndicate were disposed during the year.

The investment in the medical company which is non listed is carried at fair value. The value of the investment is based on non market observable information.

### 17.2 Investments in subsidiaries

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | US$ 000 | US$ 000 | US$ 000 | US$ 000 |
| **Shares at cost (all 100% held unless indicated otherwise)** | | | | |
| Sengwa Colliery (Private) Limited (50%) | - | - | 81 | 81 |
| RioBasemetals Limited | - | - | 55 | 55 |
| RioChrome Limited | - | - | 12 | 12 |
| RioGold (Private) Limited | - | - | - | - |
| RioZim Management Services (Private) Limited | - | - | 2 | 2 |
| Rio Tinto Properties Limited | - | - | 15 | 15 |
| RioZim Basemetals Holdings | - | - | - | - |
| RioZim Development Limited | - | - | - | - |
| RM Enterprises (Private) Limited | - | - | - | - |
| RioDiamonds (Private) Limited | - | - | - | - |
| Rutala Mine (Private) Limited | - | - | - | - |
| Sengwa Power Station (Private) Limited | - | - | - | - |
| RioEnergy (Private) Limited | - | - | 1 | 1 |
| | - | - | 166 | 166 |

### 17.3 Loans and receivables

| | | | | |
|---|---|---|---|---|
| As at 1 January | 8 | 686 | 8 | 686 |
| Disposals | - | (678) | - | (678) |
| As at 31 December | 8 | 8 | 8 | 8 |

The long term receivables consist of treasury bills which were issued in 2014 and 2015.
The treasury bills matured in 2018 and were not settled, and accrue interest at 5% (2017:5%) per annum

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

## 18 INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2018<br>US$ 000 | 2017<br>US$ 000 | 2018<br>US$ 000 | 2017<br>US$ 000 |
| Stores and consumables | 6 818 | 5 770 | 6 161 | 5 113 |
| Ore stockpiles | 1 063 | 821 | 1 063 | 821 |
| Metals and minerals in concentrates and circuit | 32 155 | 34 574 | 32 155 | 34 574 |
| Finished metals | 375 | 92 | 375 | 92 |
| | **40 411** | **41 257** | **39 754** | **40 600** |

During 2018 US$13 707 000 (2017: US$13 316 000) was recognised as an expense for inventories. This is recognised in cost of sales.

## 19 TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2018<br>US$ 000 | 2017<br>US$ 000 | 2018<br>US$ 000 | 2017<br>US$ 000 |
| Trade and other receivables (not subject to provisional pricing) | 18 409 | 10 248 | 25 311 | 15 458 |
| Trade receivables (subject to provisional pricing) | 1 487 | 3 441 | 1 487 | 3 441 |
| | **19 896** | **13 689** | **26 798** | **18 899** |
| **19.1 Trade and other receivables (not subject to provisional pricing)** | | | | |
| Trade receivables | 3 501 | 2 086 | 3 501 | 2 086 |
| Other receivables and prepayments | 14 908 | 8 162 | 21 810 | 13 372 |
| | **18 409** | **10 248** | **25 311** | **15 458** |

Trade and other receivables (not subject to provisional pricing) are non-interest bearing and are generally on terms of 30 days to 120 days. These terms are normal in the mining industry and hence the trade and other receivables carrying amount is considered equal to fair value.

In determining the expected credit loses, the Group uses a credit matrix based on the types and ages of the outstanding receivables and their creditworthiness.

There were no doubtful debts at the reporting date. The expected credit loss as at 31 December 2018 was nil (2017:Nil) therefore all receivables were assessed as recoverable.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of all receivables mentioned above.

Refer to note 29 (b) on credit risk of trade and other receivables, which explains how the Group manages and measures credit quality of trade and other receivables that are neither past due nor impaired.

### 19.2 Trade receivables (subject to provisional pricing)

| | Group 2018 US$ 000 | Group 2017 US$ 000 | Company 2018 US$ 000 | Company 2017 US$ 000 |
|---|---|---|---|---|
| Trade receivables (subject to provisional pricing) | 1 487 | 3 441 | 1 487 | 3 441 |
| | **1 487** | **3 441** | **1 487** | **3 441** |

The Group has entered into provisional pricing sales arrangement with some of its metals in concentrates customers. Trade receivables (subject to provisional pricing) are non-interest bearing, and are exposed to future commodity price movements over the Quotational Period and, hence, fail the SPPI test and are measured at fair value up until the date of settlement.

Final settlement value is based on final dry weight, agreed assays and final prices which are determined at the end of the quotational period which is usually sixty (60) days after date of shipment. The quotational period is the period after the physical shipment of goods during which the price and grade of minerals sold is subject to change due to fluctuations in commodity prices and also upon testing by the counterparty of the mineral content.

The change in the fair value of these trade receivables of US$276 000 (2017: US$1 456 000) has been recognised in the profit or loss during the year as part of revenue.

## 20 CASH AND CASH EQUIVALENTS

| | Group 2018 US$ 000 | Group 2017 US$ 000 | Company 2018 US$ 000 | Company 2017 US$ 000 |
|---|---|---|---|---|
| Cash at bank and on hand | 117 | 1 275 | 113 | 1 271 |
| Cash and cash equivalents | **117** | **1 275** | **113** | **1 271** |

## 21 SHARE CAPITAL AND RESERVES

| | 2018 No. of shares 000 | 2018 Nominal value US$000 | 2017 No. of shares 000 | 2017 Nominal value US$000 |
|---|---|---|---|---|
| **21.1 Authorised share capital** | | | | |
| Ordinary shares of US$0.01 each | 140 000 | 1 400 | 140 000 | 1 400 |
| Cumulative redeemable fixed rate preference shares of US$0.01 each | 10 000 | 100 | 10 000 | 100 |
| Special Dividend Share of a nominal value of US$124 876 | 0.001 | 125 | 0.001 | 125 |
| | **150 000** | **1 625** | **150 000** | **1 625** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | No. of shares 000 | Nominal value US$000 | No. of shares 000 | Nominal value US$000 |
| **21.2 Issued shares** | | | | |
| **Ordinary shares** | | | | |
| Ordinary shares of a nominal value of US$0.01 each | 122 030 | 1 220 | 122 030 | 1 220 |
| Special Dividend Share of a nominal value of US$124 876 | 0.001 | 125 | 0.001 | 125 |
| **Total** | **122 030** | **1 345** | **122 030** | **1 345** |
| **Cumulative redeemable fixed rate preference shares** | | | | |
| Cumulative redeemable fixed rate preference shares of US$0.01 each | **10 000** | **100** | **10 000** | **100** |

**Special dividend share**

Following the restructuring of the Group in 2004, RioZim Limited's 12 487 582 ordinary shares were converted into one special dividend share. The holder of the special dividend share had a right to cash dividends of RioZim's share in Murowa Dividends for a period of ten years ending 31 December 2013. The entitlement to the special dividend lapsed and the special dividend share now ranks equally with other ordinary shares but does not have voting rights.

**Cumulative redeemable preference shares**

The preference shares are debt instruments and are disclosed under long term liablities in note 23.

## 21.3 Issued share capital and share premium

| | Group 2018 US$ 000 | 2017 US$ 000 | Company 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|---|---|
| Share capital | 1 345 | 1 345 | 1 345 | 1 345 |
| Share premium | 20 789 | 20 789 | 20 789 | 20 789 |
| **Total issued share capital and share premium** | **22 134** | **22 134** | **22 134** | **22 134** |
| **21.4 Fair value through other comprehensive income reserve** | | | | |
| At 1 January | 141 | 142 | 141 | 142 |
| Fair value gain/(loss) on fair value through other comprehensive income investments | 5 | (1) | 5 | (1) |
| At 31 December | **146** | **141** | **146** | **141** |

The fair value through other comprehensive income reserve comprises the fair value adjustment of the Group's investment in a private medical company. The Group holds 136 000 ordinary shares of the medical company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## 21.5 Accumulated losses

| | Group 2018 US$ 000 | Group 2017 US$ 000 | Company 2018 US$ 000 | Company 2017 US$ 000 |
|---|---|---|---|---|
| Opening balance 1 January | (8 813) | (17 591) | (11 088) | (14 027) |
| (Loss)/Profit for the year | (2 224) | 8 103 | (1 740) | 2 264 |
| Other comprehensive (loss)/profit | (282) | 675 | (282) | 675 |
| **As at 31 December** | **(11 319)** | **(8 813)** | **(13 110)** | **(11 088)** |

## 22 MATERIAL PARTLY OWNED SUBSIDIARIES

Financial information of subsidiaries that have materiel non controlling interests are provided below:

Proportion of equity interest held by non controlling interest

| | Country of Incorporation | 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|---|
| **Sengwa Colliery (Private) Limited** | **Zimbabwe** | 50% | 50% |
| Principal place of business Sengwa Colliery is Midlands province in Zimbabwe. | | | |
| Non-controlling interest: | | | |
| Sengwa Colliery (Private) Limited | | (731) | (699) |
| **Loss allocated to material non-controlling interest:** | | | |
| Sengwa Colliery (Private) Limited | | (32) | (28) |
| The summarised financial information of Sengwa Colliery (Private) Limited are provided below: | | | |
| **Summarised statement of profit or loss** | | | |
| Other income | | 1 | 3 |
| Administrative expenses | | (64) | (77) |
| **Loss before tax** | | **(63)** | **(74)** |
| Income tax | | (1) | 18 |
| **Loss for the year** | | **(64)** | **( 56)** |
| Other comprehensive income | | - | - |
| **Total comprehensive loss** | | **(64)** | **(56)** |
| **Attributable to:** | | | |
| Equity holders of the parent | | (32) | ( 28) |
| Non-controlling interests | | (32) | ( 28) |
| **Summarised statement of financial position as at 31 December** | | | |
| Current assets | | 45 | 44 |
| Non-current assets | | 806 | 811 |
| Current liabilities | | (2 279) | (2 219) |
| Non-current liabilities | | (34) | (34) |
| **Total equity** | | **(1 462)** | **(1 398)** |
| **Attributable to:** | | | |
| Equity holders of the parent | | (731) | (699) |
| Non-controlling interests | | (731) | (699) |
| **Summarised cash flow information for the year ended 31 December** | | | |
| Operating | | (63) | (74) |
| Working capital changes | | 63 | 74 |
| Net decrease in cash and cash equivalents | | - | - |

RioZim Limited

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## 23 CUMULATIVE REDEEMABLE PREFERENCE SHARES

| | Group 2018 US$ 000 | 2017 US$ 000 | Company 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|---|---|
| **Non-Current Liabilities** | | | | |
| Cumulative redeemable preference shares | 33 434 | 33 434 | 33 434 | 33 434 |

The cumulative redeemable preference shares were issued to Zimbabwe Asset Management Corporation (Private) Limited (ZAMCO) on 22 January 2016. The preferences shares are unsecured, non - voting and non - tradable, they entitle the holder thereof to receive a fixed dividend of 9% per annum which dividend shall be payable on a bi-annual basis and is redeemable by the Company in part or in whole, at cost, on or before the fifth anniversary of the issue date or not more than 180 days from the fifth anniversary of the issue date.

The cumulative redeemable preference shares are carried at amortised cost. As at 31 December 2018 cumulative interest accrued was US$ 5 324 000 (2017: US$2 469 000). The accrued interest has been presented under current liabilities. (Refer to note 24).

## 24 INTEREST-BEARING LOANS AND BORROWINGS

GROUP

| | Effective interest rate % | Maturity | 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|---|---|
| **Current** | | | | |
| Bank loans (facility limit US$7.0m) | 8% | On scheduled dates | 5 885 | 4 623 |
| Other bank loans | 15% | On demand | 6 673 | 5 772 |
| Term loans (facility limit US$1.0m) | 12% | On demand | 141 | 743 |
| Debentures (facility limit US$1.93m) | 13% | March 2017* | 186 | 442 |
| Interest on cumulative redeemable preference shares | 0% | December 2018* | 5 324 | 2 469 |
| Long - term loan (Centametal AG) | 12.5% | December 2019 | 3 523 | 2 191 |
| | | | **21 732** | **16 240** |
| **Non-current** | | | | |
| Bank loans | 8% | On scheduled dates | 6 396 | 3 870 |
| Long - term loan (Centametal AG) | 12.5% | December 2019 | - | 1 123 |
| | | | **6 396** | **4 993** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## 24 INTEREST-BEARING LOANS AND BORROWINGS (Cont'd)

### COMPANY

| | Effective interest rate % | Maturity | 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|---|---|
| **Current** | | | | |
| Bank loans (facility limit US$7.0m) | 8% | On scheduled dates | 5 885 | 4 623 |
| Other bank loans | 15% | On demand | 6 673 | 5 772 |
| Term loans (facility limit US$1.0m) | 12% | On demand | 141 | 743 |
| Debentures (facility limit US$1.93m) | 13% | March 2017* | 186 | 442 |
| Interest on cumulative redeemable preference shares | 0% | December 2018* | 5 324 | 2 469 |
| Long - term loan (Centametal AG) | 12.50% | December 2019 | 3 523 | 2 191 |
| | | | **21 732** | **16 240** |
| **Non-current** | | | | |
| Bank loans | 8.4% | On scheduled dates | 6 396 | 3 870 |
| Long - term loan (Centametal AG) | 12.50% | December 2019 | - | 1 123 |
| | | | **6 396** | **4 993** |

* These facilities matured and are overdue

Total interest expense for the year on interest-bearing loans and borrowings is US$5 496 000 (2017: US$5 234 000)

**Security**

Bank loans are secured by revenue assignment agreements in respect of gold proceeds and a mortgage bond over an immovable property (US$1 245 000). All other interest - bearing loans and borrowings are unsecured.

**Centametal loan**

This loan is repayable in equal monthly instalments of US$100 000 commencing on 1 July 2014 ending December 2019. The loan is interest free and is unsecured. The total loan was US$6 600 000 ( 31 December 2018 : US$3 600 000) and has been recorded at amortised value of US$3 523 000 (2017: US$3 314 000) using a rate of 12.5% per annum.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 24.1 Changes in interest-bearing loans and borrowings arising from financing activities

| 2018 | 1 January 2018 US$ 000 | Interest acrued US$ 000 | Net Cash flows US$ 000 | Other US$ 000 | 31 December 2018 US$ 000 |
|---|---|---|---|---|---|
| Current interest - bearing | | | | | |
| loans and borrowings | 16 240 | 2 008 | 1 488 | 1 996 | 21 732 |
| Non - current interest -bearing | | | | | |
| loans and borrowings | 38 427 | 3 488 | (500) | (1 585) | 39 830 |
| | **54 667** | **5 496** | **988** | **411** | **61 562** |
| 2017 | | | | | |
| Current interest -bearing | | | | | |
| loans and borrowings | 12 107 | 1 351 | 2 840 | (58) | 16 240 |
| Non - current interest - bearing | | | | | |
| loans and borrowings | 36 767 | 3 883 | (2 095) | (128) | 38 427 |
| | **48 874** | **5 234** | **745** | **(186)** | **54 667** |

## 25 MINE REHABILITATION PROVISION

| | Note | Group 2018 US$ 000 | 2017 US$ 000 | Company 2018 US$ 000 | 2017 US$ 000 |
|---|---|---|---|---|---|
| Balance as at 1 January | | 2 620 | 1 173 | 1 231 | 1 173 |
| Unwinding of discount | 11 | 262 | 117 | 123 | 117 |
| Acqiusition of a subsidiary | 6 | - | 1 259 | - | - |
| Recognised in profit or loss | | (117) | 71 | (138) | (59) |
| **Balance at 31 December** | | **2 765** | **2 620** | **1 216** | **1 231** |

**Rehabilitation provision**

The Group makes full provision for the future cost of rehabilitating mine sites and related production facilities on a discounted basis from the time of developing the mines and installing and using those facilities. The rehabilitation provision represents the present value of rehabilitation costs relating to mine sites, which are expected to be incurred over the useful life of the mine. These provisions have been created based on RioZim' s internal estimates.

Assumptions based on the current economic environment have been made, which Directors believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions.

However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary rehabilitation works required that will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mines cease to produce at economically viable rates. This, in turn, will depend upon future gold prices, which are inherently uncertain.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## 25 MINE REHABILITATION PROVISION (Cont'd)

| | 2018 | 2017 |
|---|---|---|
| The provision was calculated using the following assumptions: | | |
| Inflation rate | 3% | 2% |
| Life of mine - Renco mine (years) | 14.7 | 11.4 |
| Life of mine - Cam & Motor mine (years) | 7.4 | 7.4 |
| Life of mine - Dalny mine (years) | 8.8 | 7.5 |
| Interest rate | 10% | 10% |
| Future value closure costs (US$000) | 6 427 | 5 315 |
| Present value recognised in Statement of Financial Position (US$000) | 2 765 | 2 620 |

## 26 PAYABLES

### 26.1 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | US$ 000 | US$ 000 | US$ 000 | US$ 000 |
| Trade payables | 54 751 | 52 986 | 52 990 | 51 345 |
| Accruals | 1 702 | 1 777 | 1 642 | 1 717 |
| Leave pay liabilities | 2 620 | 2 533 | 2 499 | 2 412 |
| Statutory liabilities | 6 736 | 6 351 | 6 725 | 6 340 |
| Other payables | 10 045 | 6 700 | 10 445 | 6 962 |
| | **75 854** | **70 347** | **74 301** | **68 776** |

Other payables include amounts due for corporate services and consultancy.

**Terms and conditions of the above financial liabilities are in the ordinary course of business:**
Trade payables are generally non -interest bearing and are normally settled on 30- 90 day terms.
Other payables are non - interest bearing and have an average term of 30-90 days.

### 26.2 Fixed - term payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | US$ 000 | US$ 000 | US$ 000 | US$ 000 |
| **Non - Current** | | | | |
| Mining Industry Pension Fund (MIPF) | 7 900 | 7 222 | 7 900 | 7 222 |
| Falcon Gold Limited | - | 511 | - | - |
| | **7 900** | **7 733** | **7 900** | **7 222** |
| **Current** | | | | |
| Falcon Gold Limited | 996 | 1 987 | - | - |
| | **996** | **1 987** | **-** | **-** |

**Mining Industry Pension Fund**
The Mining Industry Pension Fund payable incurs interest at a rate of 9% per annum compounded monthly and expires in 2020. The accrued interest as at 31 December 2018 is US$3 288 000 (2017: US$2 611 000).

**Falcon Gold Limited**
The balance is repayable to Falcon Gold Limited over a period of 3 years. It is secured against issued shares of Palatial Gold (Private) Limited, a wholly owned subsidiary of RioGold (Private) Limited and is interest free. The total amount outstanding as at 31 December 2018 was US$1 021 876 (2017: US$2 686 720) and has been recorded at amortised value of US$996 000 refer to note 31 on fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## 27 PENSION AND OTHER POST-EMPLOYMENT BENEFIT PLANS

Pensions benefits are provided for all employees through the Mining Industry Pension Fund, NSSA and RioZim Pension Fund . Both the employer and employees contribute to the funds.

**Description of the pensions and other post-employment benefit plans**

The Mining Industry Pension Fund is a defined contribution fund.

The Company and all employees also contribute to the National Social Security Authority, a social security scheme. The National Social Security Authority Scheme was promulgated under the NSSA Act 1989. The Group's obligations under the scheme are limited to specific contributions as legislated from time to time and are presently 3.5% of pensionable emoluments per month for each employee up to a maximum of US$700 per month per employee.

**RioZim Pension Fund (Defined benefit plan)**

The Company operates a defined benefit plan for some of the permanent pensionable employees. The plan is a funded final salary pension plan which provides benefits to employees in the form of a monthly pension. The level of benefits provided depends on members' length of service and their salary at retirement or earlier death or termination from employment.

The fund has the legal form of a foundation and it is governed by a Board of Trustees . The Board of Trustees consists of employer and employee representatives and is responsible for the administration of the plan assets and for the definition of the investment strategy.

The fund is actuarially valued every year and the last valuation was done in February 2019 for the position as at 31 December 2018.

**Changes in defined benefit obligations and fair value of plan assets**

The following tables summarise the components of net benefit expense recognised in the statement of comprehensive income and the funded status and amounts recognised in the statement of financial position for the respective plans:

## 27 PENSION AND OTHER POST-EMPLOYMENT BENEFIT PLANS (Cont'd)

**2018 changes in the defined benefit obligation and fair value of plan assets :**

| | | Pension cost charged to profit or loss | | | Remeasurement gains / (losses) in other comprehensive income (OCI) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31 Dec 2017 $US 000 | Service cost $US 000 | Net interest income/ (expense) $US 000 | Sub-total included profit or loss $US 000 | Benefits paid $US 000 | Actuarial changes arising from changes in demographic assumptions $US 000 | changes arising from changes in financial assumptions $US 000 | Experience adjustments $US 000 | Sub-total included in OCI $US 000 | Contri -butions $US 000 | 31 Dec 2018 $US 000 |
| Defined benefit obligations | (6 493) | (5) | (437) | (442) | 526 | - | - | (282) | (282) | - | (6 691) |
| Fair value of plan assets | 5 787 | - | 472 | 472 | (526) | - | - | - | - | 11 | 5 744 |
| **Benefit liability** | **(706)** | **(5)** | **35** | **30** | **-** | **-** | **-** | **(282)** | **(282)** | **11** | **(947)** |

**2017 changes in the defined benefit obligation and fair value of plan assets :**

| | | Pension cost charged to profit or loss | | | Remeasurement gains / (losses) in other comprehensive income (OCI) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31 Dec 2017 $US 000 | Service cost $US 000 | Net interest income/ (expense) $US 000 | Sub-total included profit or loss $'US 000 | Benefits paid $US 000 | Actuarial changes arising from changes in demographic assumptions $US 000 | changes arising from changes in financial assumptions $US 000 | Experience adjustments $US 000 | Sub-total included in OCI $US 000 | Contri -butions $US 000 | 31 Dec 2018 $US 000 |
| Defined benefit obligations | (6 650) | (4) | (447) | (451) | 535 | - | - | 73 | 73 | - | (6 493) |
| Fair value of plan assets | 5 378 | - | 330 | 330 | (535) | - | - | 603 | 603 | 11 | 5 787 |
| **Benefit liability** | **(1 272)** | **(4)** | **(117)** | **(121)** | **-** | **-** | **-** | **676** | **676** | **11** | **(706)** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

## 27 PENSION AND OTHER POST-EMPLOYMENT BENEFIT PLANS (Cont'd)

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 US$ 000 | 2017 US$ 000 | 2018 US$ 000 | 2017 US$ 000 |
| Prescribed assets & approved holdings | 98 | 109 | 98 | 109 |
| Money market | 5 | - | 5 | - |
| Equity instruments | 760 | 828 | 760 | 828 |
| Property | 4 271 | 4 285 | 4 271 | 4 285 |
| Cash and cash equivalents | 32 | 18 | 32 | 18 |
| Other | 575 | 547 | 575 | 547 |
| **Total** | **5 741** | **5 787** | **5 741** | **5 787** |

A significant proportion of the plan assets is invested in the property market 74% (2017: 74%) and the plan assets can be negatively affected by a significant fall in the property market.

**Effect of the defined benefit plan on the entity's future cash flows:**

Expected contributions to post-employment benefit for the year ending 31 December 2019 are US$8 199.

The average duration of the defined benefit plan obligation at the reporting period is 8.5 years.

**Key assumptions and quantitative sensitivity analysis**

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.
All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation.

The mortality rate is based on publicly available mortality tables. Those mortality tables tend to change only at intervals in response to demographic changes. The retirement mortality of Zimbabwean schemes follow the A24/29 mortality table and this has been used in the assumptions.

Mortality rates used for pre - retirement are consistent with the experience of the actuarial company.

Pensioner's post retirement mortality was assumed to be in line with the A(55) Ultimate mortality tables.

Future salary increases and pension increases are based on expected future inflation rate.

The key assumptions and their sensitivity analysis are discussed further below:

| | 2018 | 2017 |
|---|---|---|
| Discount rate | 7% | 7% |
| Inflation rate | 2% | 2% |
| Future salary increase | 3% | 2% |
| Return on plan asset | 2% | 2% |
| Future pension increase | 2% | 2% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## 27 PENSION AND OTHER POST-EMPLOYMENT BENEFIT PLANS (Cont'd)

A quantitative sensitivity analysis for significant assumptions as at 31 December 2018 is as shown below:

| | Discount rate | | Salaries | | Life expectancy | |
|---|---|---|---|---|---|---|
| Sensitivity level | 1% increase US$ 000 | 1% decrease US$ 000 | 1% increase US$ 000 | 1% decrease US$ 000 | 1% increase US$ 000 | 1% decrease US$ 000 |
| 31 December 2018 | (500) | 578 | 1 | (1) | 261 | (274) |
| 31 December 2017 | (427) | 493 | 1 | (1) | 245 | (258) |

The sensitivity of the defined benefit obligation to significant actuarial assumptions has been calculated using the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) used when calculating the pension liability recognised within the statement of financial position.

The sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

## 28 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties.

| | Contributions to related parties US$ 000 | Services/ purchase from parties US$ 000 | Services/ purchase to related parties US$ 000 | Loans from related paties US$ 000 | Management fees charged by related parties US$ 000 | *Amount owed by related parties US$ 000 | ^Amount owed to related parties US$ 000 |
|---|---|---|---|---|---|---|---|
| Associate | | | | | | | |
| Murowa Diamonds (Private) Limited | | | | | | | |
| 2018 | - | - | 9 570 | 1 446 | - | 10 959 | - |
| 2017 | - | - | 1 310 | - | - | 1 700 | - |
| Shareholders | | | | | | | |
| GemRioZim Investments Limited | | | | | | | |
| 2018 | - | - | - | - | 1 772 | - | 5 111 |
| 2017 | - | - | - | - | 1 852 | - | 3 456 |
| RioZim Pension Fund (Refer to Note 27) | | | | | | | |
| 2018 | 11 | 210 | - | - | - | - | 118 |
| 2017 | 11 | 206 | - | - | - | - | 244 |
| Directors fees' | | | | | | | |
| 2018 | - | 204 | - | - | - | - | 248 |
| 2017 | - | 181 | - | - | - | - | 163 |

*Amounts owed by related parties are included in trade and other receivables in the consolidated statement of financial position.

^Amount owed to related parties are included in trade and other payables and interest - bearing loans and borrowings in the consolidated statement of financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## 28 RELATED PARTY TRANSACTIONS (Cont'd)

Terms and conditions of transactions with related parties

**Transactions with Murowa**

RioZim Limited provides administration services to Murowa Diamonds (Private) Limited under a service level agreement which came into effect on 1 January 2016 and has a tenure of 5 years. These administrative services include corporate in - house legal services, human resources consultation and management, corporate secretarial services, IT support services, procurement services, technical consultation, internal audit services and any other services as agreed by the parties in writing. The fees under this agreement are 1.5% of turnover and are payable quarterly .

RioZim Ltd sold Heavy Mobile Equipment (HMEs) to Murowa Diamonds (Private) Limited with an effective date of 24 December 2018 for US$8 110 000 and a profit on disposal of US$3 947 000 was realised.

**Transactions with Gem RioZim Investments Limited**

Management fees are for advisory and consultation services which are rendered by GemRioZim Investments Limited. The management fees are charged at 1% of the net turnover of RioZim Group including turnover from affiliate companies and recoveries for running expenses and subsistence fees.

All related party outstanding balances at the year end are unsecured and interest free and settlement occurs in cash.

**Key management compensation**

Key management includes Executive directors, members of the executive committee, the Company Secretary and Head of Internal Audit. The compensation paid or payable to key management for employee services is shown below:

| | Group | |
|---|---|---|
| | 2018 US$000 | 2017 US$000 |
| Salaries and other short term employee benefits | 1 517 | 1 617 |
| Post employment benefits | - | - |
| | **1 517** | **1 617** |

## 29. FINANCIAL RISK MANAGEMENT

### 29.1 Financial risk management and policies

The Group's principal financial liabilities, comprise of redeemable preference shares, loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also holds long term receivables and Fair value through other comprehensive income investments (FVOCI).

The Group is exposed to a variety of financial risks: market risk (including currency risk, interest rate risk, commodity price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the Group's financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management identifies, evaluates and manages financial risks in close co-operation with the Group's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, and investment of excess liquidity.

#### (a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and commodity price risk. Financial instruments affected by market risk include redeemable preference shares, loans and borrowings, deposits, FVOCI investments and long term receivables.

#### i) Foreign currency risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the South African Rand. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency).

The Group policy is to adopt a non-speculative approach to manage risk while maximising profits. Exposure to exchange rate fluctuations is monitored by management. At 31 December 2018, if the United States Dollar had weakened/strengthened by 10% against the South African Rand with all other variables held constant, post-tax loss for the year would have been US$265 921 (2017: US$267 711) lower / US$217 571 (2017: US$327 202) higher, mainly as a result of foreign exchange losses/gains on translation of South African Rand denominated trade payables. There is no impact on equity.

#### (ii) Interest rate risk

The Group has no significant interest bearing assets. The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on post-tax loss of a 1% shift would be a maximum decrease/increase of US$646 000 (2017: US$548 000). The simulation is done on an annual basis to verify that the maximum loss potential is within the limit given by the management. There is no impact on equity.

#### (iii) Commodity price risk

The Group is exposed to commodity price risk in relation to its products of gold, nickel, copper and PGMs whose prices are determined by international market forces.

The table below summarises the impact of an increase/decrease in the prices of the commodities on the Group's post tax profit for the year. The analysis is based on the assumption that the commodities prices increase/decrease by 5% with all other variables held constant.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

## 29. FINANCIAL RISK MANAGEMENT (Cont'd)

### 29.1 Financial risk management and policies (Cont'd)

| Commodity | Impact on post tax profit/loss 2018 US$000 | Impact on post tax profit/loss 2017 US$000 |
|---|---|---|
| Nickel | 58 | 69 |
| Cobalt | 178 | 55 |
| Gold | 3 613 | 4 031 |
| Platinum | 1 | 5 |
| Palladium | 10 | 48 |
| Silver | 46 | 232 |
| Rhodium | - | 3 |

There is no impact on equity.

**(b) Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

**Trade receivables**

Customer credit risk is managed through the Group's established policy, procedures and controls relating to customer credit risk management. The Group trades only with recognised creditworthy third parties.

Outstanding customer receivables are regularly monitored and an impairment analysis is performed at each reporting date on an individual basis for all customers.

The Group principally sells its gold bullion to one customer whilst its other metal products are sold to a number of customers. Management is of the view that there is a low risk of default due to the following reasons:

a) The Group's major customers are reputable companies which do not have any history of default.
b) As at 31 December the majority of balances were current and a large portion of the trade receivables was settled subsequent to year end.

**Other Receivables**

The Group also enters into transactions with related party companies within the Group. The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount as per the statement of financial position. Credit risk is managed through collateral security for high value transactions and set-off arrangements with balances owed to the counterparties therefore the risk of default is low. An assessment of the expected credit losses relating to related party receivables is undertaken upon initial recognition and each financial year by examining the financial position of the related party and the market in which the related party operates applying the general approach of the ECL impairment model of IFRS 9.

**Cash and cash equivalents**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Bank deposits are made for short periods usually for less than a month, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

The Group deposits cash surpluses only with major banks of high-quality credit standing to mitigate financial loss through a counterparty's potential failure to make payments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## 29. FINANCIAL RISK MANAGEMENT (Cont'd)

### 29.1 Financial risk management and policies (Cont'd)

**(c) Credit risk** (Cont'd)

**Maximum exposure to credit risk**

The carrying amount of the financial assets included in the Consolidated Statement of Financial Position represent the Group's exposure to credit risk in relation to those assets.

**(d) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market position. Due to the dynamic nature of the underlying businesses, management aims at maintaining flexibility in funding by keeping committed credit lines available.

The table below analyses the Group's non-derivative financial assets and liabilities in relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The liabilities include both interest and principal cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Less than 1 year US$000 | From 1-3 years US$000 | More than 3 years US$000 | Less than 1 year US$000 | From 1-3 years US$000 | More than 3 years US$000 |
| **Assets** | | | | | | |
| Cash and cash equivalents | 117 | - | - | 1 275 | - | - |
| Trade and other receivables | 19 896 | - | - | 10 248 | - | - |
| Loans and receivables | 8 | - | - | 8 | - | - |
| **Total** | **20 021** | **-** | **-** | **11 531** | **-** | **-** |
| **Liabilities** | | | | | | |
| Cumulative redeemable preference shares | 5 324 | 6 079 | 33 772 | 5 472 | 6 079 | 33 772 |
| Trade and other payables | 75 854 | - | - | 70 347 | - | - |
| Fixed term payable | 1 022 | 1 865 | 6 035 | 2 677 | 2 019 | 7 222 |
| Interest bearing loans and borrowings | 17 395 | 6 908 | - | 16 240 | 4 993 | - |
| Financial Guarantee | - | | - | 7 393 | | |
| **Total** | **99 595** | **14 852** | **39 807** | **102 129** | **13 091** | **40 994** |
| **Liquidity gap** | **(79 574)** | **(14 852)** | **(39 807)** | **(90 598)** | **(13 091)** | **(40 994)** |

### 29.2 Capital risk management

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the Consolidated Statement of Financial Position) less cash and bank balances. Total capital is calculated as 'equity' as shown in the Consolidated Statement of Financial Position plus net debt.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## 29. FINANCIAL RISK MANAGEMENT (Cont'd)

### 29.2 Capital risk management (Cont'd)

During 2018, the Group's strategy was to reduce the gearing ratio to between 60% and 78%. However due to the higher than budgeted cost of borrowing and continued care and maintenance at Empress Nickel Refinery this was not achieved.

The gearing ratio at 31 December 2018 was as follows:

| | Group 2018 US$000 | Group 2017 US$000 | Company 2018 US$000 | Company 2017 US$000 |
|---|---|---|---|---|
| Total borrowings including preference shares | 61 562 | 54 667 | 61 562 | 54 667 |
| Less cash and cash equivalent | (117) | (1 275) | (117) | (1 271) |
| **Net debt** | **61 445** | **53 392** | **61 445** | **53 396** |
| Total equity | 10 230 | 12 763 | 9 170 | 11 187 |
| **Total capital** | **71 675** | **66 155** | **70 615** | **64 583** |
| Gearing ratio (%) | 86% | 81% | 87% | 83% |

## 30. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of FVOCI investments, trade receivables, derivative financial assets, interest bearing borrowings and all other receivables and payables approximates their carrying amount.

### 30.1 Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable either directly or indirectly.

Level 3: techniques that use inputs that have significant effect on the recorded fair value that are not based on observable market data.

**Recurring fair value measurements**

| | Level 1 US$000 | Level 2 US$000 | Level 3 US$000 |
|---|---|---|---|
| **2018** | | | |
| FVOCI investments | - | - | 178 |
| Trade receivables (subject to provisional pricing) | - | 1 487 | - |
| Impact of level 3 measurements on Other Comprehensive Income | - | - | 7 |
| **2017** | | | |
| FVOCI investments | - | - | 201 |
| Trade receivables (subject to provisional pricing) | - | 3 441 | - |
| Impact of level 3 measurements on Other Comprehensive Income | - | - | (1) |

## 30. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Cont'd)

### 30.2 Valuation techniques

**Trade receivables (subject to provisional pricing)**

In 2018, the Group had trade receivables (subject to provisional pricing) arising from provisional pricing sales arrangements which the Group entered into with some of its metals in concentrate customers. Final settlement value would be based on final dry weight, agreed assays and final prices which were to be determined at the end of the Quotational Period (QP), usually 60 days after date of shipment. The QP is the period after the physical shipment of goods during which the price and grade of mineral sold is subject to change due to fluctuations in commodity prices.

Description of valuation technique used and key inputs to valuation of the trade receivables.

| Typical of financial instrument | Fair value as at 31 December 2018 $ 000 | 2017 $ 000 | Valuation technique | Significant inputs |
|---|---|---|---|---|
| Trade receivables (subject to provisional pricing) | 1 487 | 3 441 | DCF | Estimated future commodity prices. Quantities and final assays |

**Fair value through other comprehensive income (FVOCI) investments**

The fair value of the FVOCI investments has been determined using the net asset value (NAV) of the investee. Management has evaluated and believes that NAV provides the most reliable and reasonable fair value after taking into account of the information available, the nature and operations of the investee and the purpose of the Group's investment in the investee.

The shares of the investee are not publicly traded and there are no other similar companies in the same market whose shares are publicly traded. Furthermore, the investee does not have a history of declaring dividends. The Group does not have access to the investee's future plans and budgets given the size of its shareholding in the investee. After considering the above factors and the materiality of the investment, management believes that NAV gives the best estimate of the investment's fair value.

Below is the financial information of the investee that was used to calculate the fair value.

| | 2018 US$000 | 2017 US$000 |
|---|---|---|
| Total assets | 20 093 | 18 058 |
| Total liabilities | (8 579) | (7 047) |
| **Net asset value** | **11 514** | **11 011** |
| **Fair value of investment (1.553% )** | **179** | **171** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

## 31. COMMITMENTS

### 31.1 Operating lease commitments

***Group as lessee***

In 2018, the Group had a commercial lease for its Head Office space with a tenure of one year with a renewal option.

There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

| | 2018 US$000 | 2017 US$000 |
|---|---|---|
| Payable within one year | 195 | 179 |

***Group as lessor***

In 2018, the Group had commercial property leases on its property portfolio consisting of the Group's surplus office, recreational facilities and residential buildings. These leases have terms of one year. All leases include a clause to enable upward review of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

| | 2018 US$000 | 2017 US$000 |
|---|---|---|
| Receivable within one year | 79 | 79 |
| **31.2 Capital commitments** | | |
| Contracts and orders placed | 1 843 | 3 990 |
| Authorised by directors but not contracted | 33 928 | 25 106 |
| **Total** | **35 771** | **29 096** |

The capital expenditure is to be financed out of the Group's own resources and borrowings where necessary.

### 31.3 Associate guarantee

The Group provided a guarantee for Murowa Diamonds (Private) Limited's loan of US$20million from Murowa Holdings Limited. The Company stood as a joint guarantor with Rio Zimbabwe Holdings Limited. The Company had also pledged its shareholding of 2 050 shares in Murowa Diamonds (Private) Limited. The loan was paid in full during the year. The guarantee was therefore discharged upon payment of the facility.

## 32. CONTINGENT LIABILITIES

In the ordinary course of business, the Group is involved in a number of litigation cases for which the Group is defending and is confident that there are no liabilities that will arise from these cases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## 33. EVENTS AFTER THE REPORTING PERIOD

In 2009 the Zimbabwean government adopted the multi-currency regime and companies in Zimbabwe adopted the same. As a consequence, since 2009, the Group has premised the United States Dollar (USD) as being both its functional and presentation currency.

The prolonged shortage of foreign currency in the country led to the widespread use of plastic money through the Real Time Gross Settlement (RTGS) system. In October 2018 the Reserve Bank of Zimbabwe directed the separation of local RTGS balances and foreign currency backed Nostro FCAs. The Government however, maintained the 1:1 parity between the RTGS USD and Nostro USD which resulted in further devaluation of the RTGS through inflationary pricing of local supplies.

On 20 February 2019 the Reserve Bank of Zimbabwe issued a monetary policy statement where the rate of exchange between the RTGS and USD which was fixed at 1:1 was floated with the starting rate pegged at 2.5. In line with the introduction of the new RTGS$ currency, the Government issued a Statutory Instrument (SI 33 of 2019) effective 22nd February 2019 which prescribed that all assets and liabilities that were expressed in USD on or prior to the effective date were to be deemed to be valued in RTGS$ at an exchange rate of 1:1 with the USD.

The introduction of the RTGS$ on the 20th of February 2019 constitutes a material post balance sheet event which may reflect a condition that existed at the reporting date of 31 December 2018. The Directors therefore assessed if there was a change in the Group's functional currency and noted that although an exchange rate higher than 1:1 existed between USD and RTGS from 1 October 2018 there were insufficient observable factors to quantify what the rate between the two currencies would actually be and consequently any unrealised exchange adjustments to the financial statements could not be accurately determined. In addition, during the year, from November 2018 the Group was paid 55% of its gold proceeds in USD, most of the Group's purchases are imports and not exposed to price distortions whilst the majority of local payments are to state owned enterprises, whose prices maintained the 1:1 parity between RTGS and the USD as at 31 December 2018. The Directors therefore concluded that there was no change in the Group's functional currency of USD.

IAS 21 *"The Effects of Changes in Foreign Exchange Rates"* requires that transactions and balances denominated in foreign currency should be presented at market exchange rates. The Group maintained the 1:1 exchange rate between RTGS$ and USD for the year ended 31 December 2018 as prescribed by the law (SI33 of 2019), and therefore was not in compliance with the requirements of IAS 21.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2018

## 33. EVENTS AFTER THE REPORTING PERIOD (Cont'd)

The potential impact on the Group's statement of financial position as at 31 December 2018 is shown below:

| | 2 018 Group Assets / Liabilities US$000 | 2 018 Group Monetary Assets / Liabilities RTGS$000 | 2018 Group Total 1:1 US$000 | 2 018 Group Total 1:2.5 US$000 | 2018 Group Total 1:4 US$000 | 2018 Group Total 1:5 US$000 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 70 753 | - | 70 753 | 70 753 | 70 753 | 70 753 |
| Exploration, evaluation and development assets | 18 315 | - | 18 315 | 18 315 | 18 315 | 18 315 |
| Investment in associate company | 5 135 | - | 5 135 | 5 135 | 5 135 | 5 135 |
| Fair value through other comprehensive income equity instruments | 178 | - | 178 | 178 | 178 | 178 |
| Deferred tax assets | 7 291 | - | 7 291 | 7 291 | 7 291 | 7 291 |
| **Total non-current assets** | **101 672** | **-** | **101 672** | **101 672** | **101 672** | **101 672** |
| **Current assets** | | | | | | |
| Inventories | 40 411 | - | 40 411 | 40 411 | 40 411 | 40 411 |
| Trade and other receivables | 3 730 | 16 166 | 19 896 | 10 196 | 7 771 | 6 963 |
| Loans and receivables | - | 8 | 8 | 3 | 2 | 1 |
| Cash and cash equivalents | 1 483 | (1 366) | 117 | 937 | 1 142 | 1 210 |
| **Total current assets** | **45 624** | **14 808** | **60 432** | **51 547** | **49 326** | **48 585** |
| **Total assets** | **147 296** | **14 808** | **162 104** | **153 219** | **150 998** | **150 257** |
| **EQUITY & LIABILITIES** | | | | | | |
| **Shareholders' equity** | | | | | | |
| Share capital | 1 345 | - | 1 345 | 1 345 | 1 345 | 1 345 |
| Share premium | 20 789 | - | 20 789 | 20 789 | 20 789 | 20 789 |
| Fair value through other comprehensive income reserve | 146 | - | 146 | 146 | 146 | 146 |
| Accumulated losses | (11 319) | - | (11 319) | (11 319) | (11 319) | (11 319) |
| Translation reserve | - | - | - | 59 340 | 74 175 | 79 120 |
| **Equity attributable to equity holders of the parent** | **10 961** | **-** | **10 961** | **70 301** | **85 136** | **90 081** |
| Non-controlling interests | (731) | - | (731) | (731) | (731) | (731) |
| **Total equity** | **10 230** | **-** | **10 230** | **69 570** | **84 405** | **89 350** |
| **Non-current liabilities** | | | | | | |
| Cumulative redeemable preference shares | - | 33 434 | 33 434 | 13 374 | 8 359 | 6 687 |
| Interest bearing loans and borrowings | - | 6 396 | 6 396 | 2 558 | 1 599 | 1 279 |
| Provisions | - | 2 765 | 2 765 | 1 106 | 691 | 553 |
| Fixed term payables | - | 7 900 | 7 900 | 3 160 | 1 975 | 1 580 |
| Deferred tax liabilities | 1 850 | - | 1 850 | 1 850 | 1 850 | 1 850 |
| Employee benefit liability | - | 947 | 947 | 379 | 236 | 189 |
| **Total non-current liabilities** | **1 850** | **51 442** | **53 292** | **22 427** | **14 710** | **12 138** |
| **Current liabilities** | | | | | | |
| Trade and other payables | 32 652 | 43 202 | 75 854 | 49 933 | 43 452 | 41 292 |
| Fixed term payables | - | 996 | 996 | 398 | 249 | 199 |
| Interest-bearing loans and borrowings | 3 663 | 18 069 | 21 732 | 10 891 | 8 182 | 7 278 |
| **Total current liabilities** | **36 315** | **62 267** | **98 582** | **61 222** | **51 883** | **48 769** |
| **Total liabilities** | **38 165** | **113 709** | **151 874** | **83 649** | **66 593** | **60 907** |
| **Total liabilities and shareholders' equity** | **48 395** | **113 709** | **162 104** | **153 219** | **150 998** | **150 257** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## 34. GOING CONCERN

As at the reporting date the Group's current liabilities exceeded current assets by US$38.2 million (December 2017: US$32.3 million) and the Group's statement of financial position showed adverse solvency ratios of 0.62:1 (December 2017: 0.64:1) and 0.21:1 (December 2017: 0.18:1) for current and acid test ratios respectively. The Group's operations were significantly impacted by shortage of foreign currency in the current year which led to the involuntary closure of all the mines in the fourth quarter and therefore negatively affected cash flows. These factors ordinarily indicate the existence of a material uncertainty on the Group's ability to continue as a going concern and that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The following matters support the appropriateness of the going concern assumption in the preparation of the financial statements of the Group that have been considered by the Directors:

- Post year end the Reserve Bank of Zimbabwe issued a revised monetary policy where the rate of exchange which was fixed at 1:1 was floated with a starting rate pegged at 2.5. In the past the Group used to be paid for 45% of its produce at a sub-standard rate of 1:1 compared to the rate at alternative markets of approximately 4:1. The pricing of inputs was set at the alternative market rate of approximately 4:1, which created a significant disparity between its cost base and its revenue. Whilst the rate of 2.5 is still below the market it is significantly higher than the previous rate of 1:1. This review will see the fortunes of the Group change even with the same level of production as the Company will now generate cash resources to service its creditors.

Furthermore, the Group's financial liabilities are predominantly denominated in RTGS$ and therefore, will be converted at the interbank rate to USD which will self-correct the net liability position.

- The Group will continue engaging the Monetary authorities to change the current policy framework such that it can return a higher percentage of its foreign currency that it generates from selling of its gold. It is also expected that the floating of the exchange rate would be left completely to market forces so that the exchange rate reflects the true value of the RTGS$ in the market.

- Even with the depressed exchange rate the Group managed to generate net earnings, as represented by EBITDA of US$2.4million (2017:US$8.1million) being generated in 2018. Management also expects that the earnings will further improve at the back of the following initiatives:
  - Opening of One Step Mine hauling ore to Cam & Motor Plant.
  - Completion of the BIOX Plant which will double gold production at Cam and Motor.
  - Cost savings from owner mining at Cam & Motor and Dalny.
  - Resumption of underground mining at Dalny Mine which will enable the mine to access high grade ores which will increase gold production.
  - ENR to continue with projects that will generate sufficient cash flows to meet its care and maintenance costs.

The Directors therefore believe that the preparation of the financial statements on a going concern basis is still appropriate. This basis assumes that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

# TOP 20 SHAREHOLDERS

## AS AT 31 DECEMBER 2018

| Rank | Names | Shares | Percentage |
|---|---|---|---|
| 1 | GEM RIOZIM INVESTMENTS LTD (NNR) | 53 711 268 | 44.01 |
| 2 | OLD MUTUAL LIFE ASS CO ZIM LTD | 27 469 525 | 22.51 |
| 3 | ROY TURNER | 11 732 166 | 9.61 |
| 4 | RIOZIM FOUNDATION CO (PVT) LTD | 6 003 579 | 4.92 |
| 5 | STANBIC NOMINEES (PVT) LTD. | 4 573 681 | 3.75 |
| 6 | CHARTERHOUSE 3 LIMITED | 2 315 129 | 1.90 |
| 7 | GLS PHOENIX LIMITED | 2 069 829 | 1.70 |
| 8 | LEONARD LICHT | 1 923 736 | 1.58 |
| 9 | SCB NOMINEES 033667800001 | 1 088 921 | 0.89 |
| 10 | SANJAYKUMAR PATEL | 908 377 | 0.74 |
| 11 | TFS NOMINEES (PVT) LIMITED | 421 603 | 0.35 |
| 12 | GURAMATUNHU FAMILY TRUST | 395 013 | 0.32 |
| 13 | LOCAL AUTHORITIES PENSION FUND | 361 637 | 0.30 |
| 14 | MUROWA DIAMONDS (PVT) LTD | 361 224 | 0.30 |
| 15 | CATERING INDUSTRY PENSION FUND | 312 336 | 0.26 |
| 16 | THE SEED TRUST | 268 494 | 0.22 |
| 17 | NATIONAL FOODS P F-IMARA | 246 541 | 0.20 |
| 18 | MIMOSA MINING CO PF - IMARA | 239 161 | 0.20 |
| 19 | AMZIM PENSION FUND - IMARA | 238 500 | 0.20 |
| 20 | MINERVA INC WDRWL FUND-IMARA | 215 039 | 0.18 |

| | | |
|---|---|---|
| Selected Shares | 114 855 759 | 94.12 |
| Non - Selected Shares | 7 173 711 | 5.88 |
| Issued Shares | 122 029 470 | 100.00 |
| Holders | 1 833 | |

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 63rd Annual General Meeting of members will be held at No. 1 Kenilworth Road, Highlands, Harare, Zimbabwe on Monday the 24th of June 2019 at 10.30 hours for the purpose of transacting the following business:-

## A. ORDINARY BUSINESS

### 1. Financial Statements

To receive, consider and adopt the Financial Statements for the year ended 31st December 2018 together with the Report of the Directors and Auditors thereon.

### 2. Directorate

a) To re-elect directors by individual resolutions in terms of section 174 of the Companies Act [Chapter 24:03].

b) Mr S R Beebeejaun retires by rotation in terms of Article 95 and 96 of the Company's Articles of Association and being eligible offers himself for re-election.

c) Mr M T Sachak retires by rotation in terms of Article 95 and 96 of the Company's Articles of Association and being eligible offers himself for re-election.

d) Mr J M Chikura, appointed since the last annual general meeting, retires in terms of Article 101 of the Articles of Association and being eligible offers himself for re-election.

### 3. Directors Remuneration

To approve the remuneration of the Directors for the year ended 31st December 2018.

### 4. Auditors Fees and Appointments

a) To approve the remuneration of the Auditors for the financial year ended 31st December 2018.

b) To appoint auditors for the ensuing year until the conclusion of the next Annual General Meeting. Ernst & Young Chartered Accountants (Zimbabwe) retire and being eligible, offer themselves for re-election.

## B. SPECIAL BUSINESS

### 5. Increase in the Company's Authorized Ordinary Share Capital

To consider and, if deemed fit, to pass with or without modification, the following special resolution-

"THAT subject to the approval of the Registrar of Companies, the authorised share capital of the Company be and is hereby increased:

- From USD 1 500 000 (one million five hundred thousand United States dollars) divided into 150 000 000 (one hundred and fifty million) Ordinary Shares of USD0.01 (one United States cent) each;

- To USD 2 250 000 (two million, two hundred and fifty thousand United States dollars) divided into 225 000 000 (two hundred and twenty-five million) Ordinary Shares of USD 0.01 (one United States cent) each."

### 6. Share Buy-Back

To consider and, if deemed fit, to pass with or without modification, the following ordinary resolution:-

"That in terms of section 79 of the Companies Act [Chapter 24:03] and the Zimbabwe Stock Exchange (ZSE) Listing Requirements, the Company is authorised to purchase its own shares upon such terms and conditions and in such amounts as the Directors of the Company may from time to time determine and such authority hereby specifies that-

i) the authority in terms of this resolution shall expire on the date of the Company's next Annual General Meeting and shall not extend beyond 15 (fifteen) months from the date of this resolution;

ii) acquisitions shall be of ordinary shares which, in the aggregate in any one financial year, shall not exceed 20% (twenty percent) of the Company's issued ordinary share capital;

iii) the purchase price shall not be lower than the nominal value of the Company's shares and not greater than 5% or lower than 5% of the weighted average of the market price at which such ordinary shares are traded on the ZSE, as determined over the five (5) business days immediately preceding the date of purchase of such ordinary shares by the Company;

iv) the shares repurchased by the Company may be held for treasury purposes or cancelled as may be decided by the Board of Directors from time to time;

# NOTICE OF ANNUAL GENERAL MEETING (Cont'd)

v) a press announcement will be published as soon as the Company has acquired ordinary shares constituting, on a cumulative basis in the period between annual general meetings, 3% (three percent) of the number of ordinary shares in issue prior to the acquisition; and

vi) in accordance with section 81 of the Companies Act [Chapter 24:03], any payment to be made by the Company in consideration of acquiring any right to purchase its ordinary shares pursuant to the authority granted in terms of this resolution shall be made out of the profits of the Company that would otherwise be available for dividend."

**Note:**
In terms of this resolution, the Directors are seeking authority to allow use of the Company's available cash resources to purchase its own shares in the market in terms of the Companies Act [Chapter 24:03] and the regulations of the ZSE, for treasury purposes. The Directors will only exercise the authority if they believe that to do so would be in the best interests of shareholders generally. In exercising this authority, the Directors will take into account the ability of the Company to pay its debts in the ordinary course of business, the maintenance by the Company of an excess of assets over liabilities and the adequacy of the Company's ordinary capital, reserves and working capital.

**7. Placing 5% of authorised unissued shares under the control of the Directors**

To consider and if deemed fit pass with or without modification the following ordinary resolution:-

"THAT up to 5% of the authorised unissued ordinary shares of the Company be placed under the control of Directors, until the next Annual General Meeting, to be issued, subject to the requirement of the Company's Memorandum of Articles of Association and the Zimbabwe Stock Exchange Listing Requirements."

**8. Any Other Business**

To transact any other business as may be transacted at an Annual General Meeting.

APPOINTMENT OF PROXY:

i) In terms of the Companies Act [Chapter 24:03], a member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.

ii) Proxy forms must be deposited at the registered office of the Company or at the office of the Transfer Secretaries (Corpserve Registrars (Private) Limited, Second Floor, ZB Centre, Corner First Street and Kwame Nkrumah Avenue, Harare) not less than 48 (forty-eight) hours before the time appointed for the holding of the meeting.

**By Order of the Board**
RioZim Management Services (Private) Limited (Secretaries)
**Per Z Makorie**

# FORM OF PROXY

For use at the Annual General Meeting ("AGM") of RioZim Limited to be held at No. 1 Kenilworth Road, Highlands, Harare, Zimbabwe on Monday 24 June 2019 at 10.30 hours..

I/We.....................................................................................................................................................................................................(Name/s in block letters)

Of..........................................................................................................................................................................................................................................
Being a member of RioZim Limited ("the Company")

holding...............................................................................................................................................................oridinary shares in the Company

Hereby appoint..................................................................................................................of...............................................................................................................
Address

...............................................................................................................................................................................................................................................

Or failing him/her..........................................................................................................of...............................................................................................................
Address

...............................................................................................................................................................................................................................................

Or failing him/her, the Chairman of the meeting as my/our proxy to attend, speak and vote for me/us on my/our behalf at the annual general meeting of the Company as specified above and any adjournments thereof.

Signed this.................................................................................................................... Day of...................................................................................2019

Signature of member.........................................................................................................................................................................................................

Notes to Proxy

## INSTRUCTIONS FOR SIGNING AND LODGING THIS FORM OF PROXY

It is important that this information is read before completing the Proxy form.

1. In terms of section 129 of the Companies Act [Chapter 24:03] a member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or more proxies to act in the alternative as his/her proxy, to attend, vote and speak instead of him/her. A proxy need not be a member of the Company. Appointment of a proxy will not preclude a member from attending and voting at the meeting. Every person present and entitled to vote at a general meeting shall, on a show of hands, have one vote only, but in the event of a poll, every share shall have one vote.

2. A deletion of any printed matter and the completion of any blank spaces need not be signed or initialed. Any alteration or correction must be initialed by the signatory/ies. The proxy form must be signed and dated for it to be valid.

3. In accordance with Article 73 of the Company's Articles of Association, instruments of proxy must be deposited at the registered office of the Company addressed to the Company Secretary or at the office of the Transfer Secretaries (specified overleaf) not less than 48 (forty-eight) hours before the time appointed for holding the meeting. If in default, the instrument of proxy shall be rendered invalid.

4. Documentary evidence in the form of a Board resolution establishing the authority of a person signing this proxy form must be deposited together with the proxy form not less than 48 (forty-eight) hours before the meeting unless previously recorded by the Company Secretary of the Company's Transfer Secretaries.

5. If two or more proxies appointed in the alternate attend the meeting then that person attending the meeting whose name appears first on the proxy form shall be regarded as the validly appointed proxy.

6. When there are joint holders of shares, any one holder may sign the proxy form. In the case of joint holders, the senior who tenders a vote will be accepted to the exclusion of other joint holder. Seniority will be determined by the order in which names stand in the register of members.

7. This is a GENERAL PROXY allowing the proxy to vote on behalf of the member on the resolutions properly proposed for the meeting and or any other business that may properly come before the meeting. The proxy can vote as he/she sees fit FOR or AGAINST a resolution unless given additional specific written directions as to how to vote on specific resolutions in which case those directions must be filed together with this General Proxy.

8. The completion and lodging of this proxy form will not preclude the member who grants this proxy form from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms of the proxy form should such member wish to do so. In the event of such personal attendance the proxy form will be revoked.

TRANSFER SECRETARIES
Corpserve Registrars (Private) Limited
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RioZim Limited

RioZim Limited

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