Skorpion Mining Company (Proprietary) Limited
(Registration number 98/384)
Annual Financial Statements
for the year ended 31 March 2022

## General Information

| | |
|---|---|
| **Country of incorporation and domicile** | Namibia |
| **Nature of business and principal activities** | Exploration, development, production and sale of zinc ore. |
| **Directors** | P Singla<br>P Van Greunen |
| **Registered office** | 24 Orban Street<br>Klein Windhoek<br>Windhoek<br>Namibia |
| **Postal address** | P O Box 30<br>Windhoek<br>Namibia |
| **Holding company** | Skorpion Zinc (Proprietary) Limited<br>incorporated in Namibia |
| **Ultimate holding company** | Vedanta Resources Limited<br>incorporated in United Kingdom |
| **Auditors** | Ernst & Young Namibia |
| **Company registration number** | 98/384 |
| **Preparer** | The annual financial statements were internally compiled under the supervision of:<br>Pushpender Singla CA(SA)<br>Chief Financial Officer |

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**Preparer**

Pushpender Singla CA(SA)
Chief Financial Officer

**Published**

23 May 2022

# Directors' Responsibilities and Approval

The directors are required in terms of the Companies Act of Namibia, 2004, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

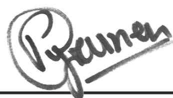
The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 31 March 2023 and, in light of this review and the current financial position, they are satisfied that the company has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on pages 4 - 5.

The annual financial statements set out on pages 6 to 44, which have been prepared on the going concern basis, were approved by the board of directors on 23 May 2022 and were signed on their behalf by:

**Signed on behalf of the Board of Directors By:**



**P Van Greunen**

**P Singla**

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# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF SKORPION MINING COMPANY (PROPRIETARY) LIMITED

## Opinion

We have audited the annual financial statements of Skorpion Mining Company (Proprietary) Limited ('the company') set out on pages 6 to 44 which comprise the directors' report, the statement of financial position as at 31 March 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Skorpion Mining Company (Proprietary) Limited as at 31 March 2022 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Namibia.

## Basis for opinion

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 annual financial statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants *International Code of Ethics for Professional Accountants* (*including International Independence Standards)* and other independence requirements applicable to performing audits of annual financial statements in Namibia. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other information

The directors are responsible for the other information. The other information comprises the general information, contents and the directors' responsibilities and approval. The other information does not include the annual financial statements and our auditor's report thereon. Our opinion on the annual 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 annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual 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. We have nothing to report in this regard.

## Responsibilities of the directors for the annual financial statements

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

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

Registered Chartered Accountants and Auditors (Practice No: 9410)
Partners: J.J. Coetzee; B.S. Masule; D. Van Wyk
A member firm of Ernst & Young Global Limited

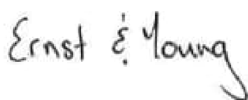
Auditor's responsibilities for the audit of the annual financial statements

Our objectives are to obtain reasonable assurance about whether the annual 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 annual 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 annual 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 company'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 company'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 annual 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 company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.



Ernst & Young Namibia
Partner – Jaco Coetzee
Registered Accountants and Auditors
Chartered Accountants (Namibia)
Windhoek

Date: 23 May 2022

# Directors' Report

The directors have pleasure in submitting their report on the annual financial statements of Skorpion Mining Company (Proprietary) Limited for the year ended 31 March 2022.

### 1. Nature of business

The company is the holder of Mining Licence ML108 which holds the exclusive right to mine precious, base and rare metals over a certain portion of land in the Karas region, near Rosh Pinah. The mining licence was issued on 31 July 2000 for a period of twenty-five years. The company mines zinc ore by conventional open pit method. The ore is sold to Namzinc (Proprietary) Limited. The company also conducts exploration activities.

On the 31st of March 2020 the mine was put into care and maintenance after a series of slope failures that occurred in the 2020 financial year. The pit has been assessed by a series of industry experts who have concluded that the pit is minable and a new mine plan has been developed. The directors currently expect mining to resume in the last quarter of the 2023 financial year. The directors estimate this will take eight months from the restart of mining operations to fully mine the declared ore resources in the pit. A letter of guarantee for the comany has been isssued by the Black Mountain Mining entity in light of the opperations being in care and maintenance, the letter confirms that the company will be able to meet its financial obligations as they fall due.

Management have performed a discounted cash flow calculation as at 31 March 2022 using only ore expected to be received from Pit 112. Should, for any reason, the conversion of Namzinc (Proprietary) Limited's refinery not be approved by the board the present value of future expected cash flows from the processing, refining and sale of the remaining oxide ore are greater than the net book value of the mining and refinery assets and therefore the directors are comfortable that the assets are not impaired as at the 31 March 2022.

There have been no material changes to the nature of the company's business from the prior year.

### 2. Review of financial results and activities

The annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Namibia, 2004. The accounting policies have been applied consistently compared to the prior year.

Full details of the financial position, results of operations and cash flows of the company are set out in these annual financial statements.

The authorised share capital of 4 000 (2021: 4 000) and issued share capital of 100 (2021: 100) ordinary shares have remained unchanged during the year.

### 3. Dividends

The board of directors do not recommend the declaration of a dividend for the year (2021: N$ nil).

### 4. Directorate

The directors in office at the date of this report are as follows:

| Directors | Office | Designation | Nationality |
| --- | --- | --- | --- |
| P Singla | Chief Financial Officer | Executive | Indian |
| P Van Greunen | General Manager | Executive | South African |

### 5. Holding company

The company's holding company is Skorpion Zinc (Proprietary) Limited which holds 100% (2021: 100%) of the company's equity. Skorpion Zinc (Proprietary) Limited is incorporated in Namibia.

# Directors' Report

### 6. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

### 7. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The directors believe that the company has adequate financial resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The directors are not aware of any new material changes that may adversely impact the company. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the company.

The loan payable between the company and Namzinc (Proprietary) Limited has been subordinated in favour of other creditors. In addition a letter of guarantee for the company has been issued by the Black Mountain Mining entity confirming that the company will be able to meet its financial obligations as they fall due.

### 8. Terms of appointment of the auditors

Ernst & Young Namibia were appointed as the company's auditors for the year, in accordance with Section 278(2) of the Companies Act of Namibia.

## Statement of Financial Position as at 31 March 2022

| | Note(s) | 2022 N$ '000 | 2021 N$ '000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 3 | 785,226 | 791,501 |
| **Current Assets** | | | |
| Inventories | 4 | 55,127 | 40,087 |
| Loans to group companies | 5 | 2,346,853 | 2,346,853 |
| Trade and other receivables | 6 | 12,720 | 12,533 |
| Cash and cash equivalents | 7 | 5,236 | 6,101 |
| | | **2,419,936** | **2,405,574** |
| **Total Assets** | | **3,205,162** | **3,197,075** |
| **Equity and Liabilities** | | | |
| **Equity** | | | |
| Share capital | 8 | 1 | 1 |
| Accumulated loss | | (3,074,435) | (3,056,051) |
| | | **(3,074,434)** | **(3,056,050)** |
| **Liabilities** | | | |
| **Non-Current Liabilities** | | | |
| Decommissioning provisions | 9 | 4,417 | 4,562 |
| Restoration provision | 10 | 69,643 | 71,933 |
| | | **74,060** | **76,495** |
| **Current Liabilities** | | | |
| Trade and other payables | 11 | 10,676 | 11,966 |
| Loans from group companies | 12 | 6,194,860 | 6,164,664 |
| | | **6,205,536** | **6,176,630** |
| **Total Liabilities** | | **6,279,596** | **6,253,125** |
| **Total Equity and Liabilities** | | **3,205,162** | **3,197,075** |

## Statement of Profit or Loss and Other Comprehensive Income

| | Note(s) | 2022 N$ '000 | 2021 N$ '000 |
|---|---|---|---|
| Revenue | 13 | - | 28,502 |
| Cost of sales | | - | (17,875) |
| **Gross profit** | | **-** | **10,627** |
| Other operating income | 14 | 6,070 | 7,132 |
| Other operating losses | 15 | - | (585) |
| Selling and distribution expenses | | - | (50) |
| General and administrative expenses | | (20,646) | (115,526) |
| **Operating loss** | 16 | **(14,576)** | **(98,402)** |
| Investment income | 17 | 171 | 280 |
| Finance costs | 18 | (3,979) | (3,890) |
| **Loss before taxation** | | **(18,384)** | **(102,012)** |
| Taxation | 19 | - | - |
| **Loss for the year** | | **(18,384)** | **(102,012)** |
| Other comprehensive income | | - | - |
| **Total comprehensive loss for the year** | | **(18,384)** | **(102,012)** |

# Statement of Changes in Equity

| | Share capital | Accumulated loss | Total equity |
|---|---|---|---|
| | N$ '000 | N$ '000 | N$ '000 |
| **Balance at 01 April 2020** | **1** | **(2,954,039)** | **(2,954,038)** |
| Loss for the year | - | (102,012) | (102,012) |
| Other comprehensive income | - | - | - |
| **Total comprehensive loss for the year** | **-** | **(102,012)** | **(102,012)** |
| **Balance at 31 March 2021** | **1** | **(3,056,051)** | **(3,056,050)** |
| Loss for the year | - | (18,384) | (18,384) |
| Other comprehensive income | - | - | - |
| **Total comprehensive loss for the year** | **-** | **(18,384)** | **(18,384)** |
| **Balance at 31 March 2022** | **1** | **(3,074,435)** | **(3,074,434)** |
| Note(s) | 8 | | |

## Statement of Cash Flows

| | Note(s) | 2022 N$ '000 | 2021 N$ '000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash used in operations | 20 | (31,232) | (173,661) |
| Finance income | | 171 | 280 |
| Finance costs | | - | - |
| **Net cash from operating activities** | | **(31,061)** | **(173,381)** |
| **Cash flows from investing activities** | | | |
| Loans advanced to group companies | 22 | - | (354) |
| **Net cash from investing activities** | | **-** | **(354)** |
| **Cash flows from financing activities** | | | |
| Advances of loans from group companies | 22 | 30,196 | 145,585 |
| **Net cash from financing activities** | | **30,196** | **145,585** |
| **Total cash movement for the year** | | **(865)** | **(28,150)** |
| Cash at the beginning of the year | | 6,101 | 34,251 |
| **Total cash at end of the year** | 7 | **5,236** | **6,101** |

# Accounting Policies

## 1. Significant accounting policies

The principal accounting policies applied in the preparation of these annual financial statements are set out below.

### 1.1 Basis of preparation

The annual financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these annual financial statements and the Companies Act of Namibia, 2004.

The annual financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Namibia Dollars, rounded to the nearest thousand dollars, which is the company's functional currency.

These accounting policies are consistent with the previous period.

### 1.2 Significant judgements and sources of estimation uncertainty

The preparation of annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

**Critical judgements in applying accounting policies**

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

# Accounting Policies

### 1.2 Significant judgements and sources of estimation uncertainty (continued)

**Ore resources estimates**

Ore reserves and mineral resource estimates are estimates of the amount of ore that can be economically and legally extracted from the company's mining properties. Such reserves and mineral resource estimates and changes to these may impact the company's reported financial position and results, in the following way:
- 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 the statement of profit or loss and other comprehensive income may change where such charges are determined using the unit of produtction method, or where the useful life of the related assets change.
- Capitalised stripping costs recognised in the statement of financial position, as either part of mine properties or inventory or charged to profit or loss, may change due to changes in stripping ratios.
- Provisions for rehabilitation and environmental provisions may change where reserve estimate changes affect expectations about when such activities will occur and the associated cost of these activities.
- 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.

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

**Exploration costs - Gergarub**

Skorpion Mining Company (Proprietary) Limited and Rosh Pinah Zinc Corporation Limited concluded a Memorandum of Understanding, signed 20 June 2005 (with subsequent amendments), on various aspects of zinc exploration and development of resources on each party's Exploration Prospecting License areas.

As part of the company's exploration activities the Gergarub deposits were discovered. Based on certain trigger points Rosh Pinah Zinc Corporation Limited is required to contribute to certain past and future expenses. At the reporting date, an amount of N$48 075 289 (2021: N$48 075 289) was included in the capital work-in-progress related to this project.

**Going Concern**

The company made a loss of N$18 384 222 for the year ended 31 March 2022 (2021: N$102 012 385) and, as at that date its total liabilities exceeded its total assets by N$3 074 434 000 (2021: N$3 056 050 000). The company continues to incur losses.

Namzinc (Proprietary) Limited has agreed to assist Skorpion Mining Company (Proprietary) Limited by subordinating, subject to certain terms and conditions, the total loan of N$5 602 288 000 (2021: N$5 747 678 000) with Skorpion Mining Company (Proprietary) Limited, in favour of, and for the benefit of other creditors of Skorpion Mining Company (Proprietary) Limited.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that that the company will continue to receive the support of its related company and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

The loan payable between the company and Namzinc (Proprietary) Limited has been subordinated in favour of other creditors. In addition a letter of guarantee for the comany has been isssued by the Black Mountain Mining confirming that the company will be able to meet its financial obligations as they fall due.

# Accounting Policies

### 1.2 Significant judgements and sources of estimation uncertainty (continued)

**Key sources of estimation uncertainty**

**Carrying value versus fair value**

All non-current liabilities carrying amounts are a reasonable approximation of fair value.

Management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. Trade receivables subject to provisional pricing are already carried at fair value.

The fair value of the financial instruments is included at 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. Management of the company have assessed that the fair values of cash and cash equivalents, trade receivables (not subject to provisional pricing), trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The company measures financial instruments, such as provisionally priced trade receivables, at fair value at each reporting date. Also, from time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or cash generating unit at fair value less costs of disposal.

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 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. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share based payments, leasing transactions that are within the scope of lFRS 16 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in lAS 2 Inventories or value in use in lAS 36 Impairment of Assets.

The company 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 annual financial statements are categorised within the fair value hierarchy.

For assets and liabilities that are recognised in the annual financial statements on a recurring basis, the company determines whether transfers have occurred between levels in the hierarchy by re-assessing 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.

## Accounting Policies

### 1.2 Significant judgements and sources of estimation uncertainty (continued)

**Significant estimates and assumptions**

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

When the fair values of non-financial assets/cash generating unit need to be determined, e.g., for the purposes of calculating fair value less cost of disposal for impairment testing purposes, they are measured using valuation techniques including the discounted cash flow model.

The company's principal financial liabilities comprise accounts payable. The main purpose of these financial instruments is to manage short-term cash flow and raise finance for the company's capital expenditure programme. The company's principal financial assets and provisionally priced trade receivables, comprise trade and other receivables and cash and short-term deposits that arise directly from its operations.

**Risk exposures and responses**

The company manages its exposure to key financial risks in accordance with its financial risk management policy. The objective of the policy is to support the delivery of the company's financial targets while protecting future financial security. The main risks that could adversely affect the company's financial assets, liabilities or future cash flows are market risks comprising: commodity price risk, cash flow interest rate risk and foreign currency risk; liquidity risk; and credit risk. Management reviews and agrees policies for managing each of these risks that are summarised below.

**Impairment testing**

The company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. When such indicators exist, management determine the recoverable amount by performing value in use and fair value calculations. These calculations require the use of estimates and assumptions. When it is not possible to determine the recoverable amount for an individual asset, management assesses the recoverable amount for the cash-generating unit to which the asset belongs.

Determining whether property, plant and equipment are impaired requires an estimation of the value in use of the cash-generating unit to which it has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

**Decommissioning and rehabilitation provisions**

Provisions are inherently based on assumptions and estimates using the best information available. Additional disclosure of these estimates of provisions are included in note 9 and note 10.

Estimating the future costs of environment and rehabilitation obligations is complex and requires management to make estimates and judgements as most of the obligations will be fulfilled in future and contracts and laws are often not clear regarding what is required. The resulting provision is further influenced by changing technologies and environmental, safety, business and statutory considerations.

# Accounting Policies

### 1.2 Significant judgements and sources of estimation uncertainty (continued)

**Life-of-mine review**

The life-of-mine ("LOM") plan is reviewed annually. The LOM plan takes into account an expectation of the changes in commodity prices, foreign exchange rates, fixed and variable mining cost, zinc grade and capital expenditure. Mining activities relating to Pit 112 are expected to conclude in FY 23 after which exploration activities will continue together with the processing of the stock piles.

**Inventory valuation**

Stockpiles are valued by estimating the zinc content in tons and applying the average cost method to the tons in stock. Zinc content of stockpiles is quantified by performing geological samples on the stockpiles in order to determine the grade (expressed as a percentage). This percentage is then applied to the total tons of ore in the stockpile.

**Deferred tax assets**

Deferred tax assets are recognised to the extent it is probable that taxable income will be available in future against which they can be utilised. Future taxable profits are estimated based on assumptions regarding economic growth, commodity prices and inflation.

### 1.3 Property, plant and equipment

Property, plant and equipment are tangible assets which the company holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the company, and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge accounting, where appropriate.

The initial estimate of the costs of dismantling and removing an item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the company is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Expenditure incurred subsequently for major services, additions to or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the company and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Major spare parts and stand by equipment which are expected to be used for more than one year are included in property, plant and equipment.

Assets in the course of construction are capitalised in the assets under construction account. At the point when an asset is capable of operating in the manner intended by management, the cost of construction is transferred to the appropriate category of property, plant and equipment. Costs (net of income) associated with the commissioning of an asset and any obligatory decommissioning costs are capitalised until the period of commissioning has been completed and the asset is ready for its intended use.

# Accounting Policies

### 1.3 Property, plant and equipment (continued)

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the company. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

Mining properties and other assets in the course of development or construction, freehold land and goodwill are not depreciated or amortised.

Mining properties and plant and equipment are depreciated down to their residual values with reference to the expected units of production using the life of mine method based on proven and probable reserves. Depreciation is charged on new mining ventures from the date that the mining property is capable of commercial production. When there is little likelihood of a mineral right being exploited, or the value of the exploitable mineral right has diminished below cost, a write-down to the recoverable amount is charged to profit or loss.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Depreciation method | Average useful life |
|---|---|---|
| Furniture and fixtures | Straight line | 10 |
| Motor vehicles | Straight line | 4 |
| IT equipment | Straight line | 3 |

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

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

At each reporting period end, the company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Property, plant and equipment with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment is recognised immediately as an expense.

# Accounting Policies

### 1.3 Property, plant and equipment (continued)

Where an impairment subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment is recognised as income immediately.

**Research exploration and pre-production expenditure**

Research expenditure is written off in the period in which it is incurred until such time as an economic reserve is defined. When a decision is taken that a mining property is viable for commercial production all further pre-production expenditure is capitalised. Capitalisation of pre-production expenditure ceases when the mining property is capable of commercial production. Capitalised pre-production expenditure is amortised from the date commercial production commences over the economic life of the mine.

**Borrowing costs**

Borrowing cost includes interest expense as per effective interest rate (EIR) and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest cost.

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time that the assets are substantially ready for their intended use which is when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available out of money borrowed specifically to finance a project, the income generated from such short-term investments is also capitalised to reduce the total capitalised borrowing cost.

All other borrowing costs are recognised in the income statement in the period in which they are incurred. Capitalisation of interest on borrowings related to construction or development projects is ceased when substantially all the activities that are necessary to make the assets ready for their intended use are complete or when delays occur outside of the normal course of business.

EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial liability or a shorter period, where appropriate, to the amortised cost of a financial liability. When calculating the effective interest rate, the company estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options).

**Stripping costs**

Stripping costs to be recognised as part of an asset (either as inventory or as non-current asset), if the following conditions are met:

- It is probable that the future economic benefits (improved access to an ore body) associate with the stripping activity will follow to the entity;
- The entity can identify the component of an ore body for which access has been improved; and
- The costs relating to the improved access to that component can be measured reliably. To the extent that the benefit creates improved access to ore to be mined in future periods, the entity must recognise these production stripping costs as non-current.

# Accounting Policies

### 1.4 Site restoration and dismantling cost

The company has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as "decommissioning, restoration and similar liabilities". The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

These costs are charged to the statement of profit/(loss) over the life of the operation through the depreciation of the asset and the unwinding of the discount on the provision. The cost estimates are reviewed periodically and are adjusted to reflect known developments which may have an impact on the cost estimates or life of operations. The cost of the related asset is adjusted for changes in the provision due to factors such as updated cost estimates, changes to lives of operations, new disturbance and revisions to discount rates. The adjusted cost of the asset is depreciated prospectively over the lives of the assets to which they relate. The unwinding of the discount is shown as a finance cost in the statement of profit/(loss).

Costs for restoration of subsequent site damage which is caused on an ongoing basis during production are provided for at their net present value and charged to the statement of profit/(loss) as extraction progresses. Where the costs of site restoration are not anticipated to be material, they are expensed as incurred.

The provisions for restoration, rehabilitation and environmental liabilities represent the management’s best estimate of the costs which will be incurred in the future to meet the company’s obligations under existing Namibian law and the terms of the company’s mining and other licences and contractual arrangements.

The company recognises the full cost of site restoration as a liability when the obligation to rectify environmental damage arises. An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing production from a producing field.

# Accounting Policies

### 1.5 Financial instruments

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

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

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

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

Derivatives which are not part of a hedging relationship:
- Mandatorily at fair value through profit or loss.

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

Note 24 Financial instruments and risk management presents the financial instruments held by the company based on their specific classifications.

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

**Loans receivable at amortised cost**

**Classification**

Loans to group companies (note 5) are classified as financial assets subsequently measured at amortised cost.

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

### 1.5 Financial instruments (continued)

**Recognition and measurement**

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

They are subsequently measured at amortised cost.

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

**Application of the effective interest method**

Interest income is calculated using the effective interest method, and is included in profit or loss in investment income (note 17).

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

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

**Impairment**

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

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

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

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

**Significant increase in credit risk**

In assessing whether the credit risk on a loan has increased significantly since initial recognition, the company compares the risk of a default occurring on the loan as at the reporting date with the risk of a default occurring as at the date of initial recognition.

# Accounting Policies

### 1.5 Financial instruments (continued)

The company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

Irrespective of the outcome of the above assessment, the credit risk on a loan is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the company has reasonable and supportable information that demonstrates otherwise.

By contrast, if a loan is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk on the loan has not increased significantly since initial recognition.

The company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

**Trade and other receivables**

**Classification**

Trade and other receivables, excluding, when applicable, VAT and prepayments, are classified as financial assets subsequently measured at amortised cost (note 6).

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

**Recognition and measurement**

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

They are subsequently measured at amortised cost.

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

**Impairment**

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

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

**Borrowings and loans from related parties**

**Classification**

Loans from group companies (note 12) are classified as financial liabilities subsequently measured at amortised cost.

# Accounting Policies

### 1.5 Financial instruments (continued)

**Recognition and measurement**

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

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

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

Interest expense, calculated on the effective interest method, is included in profit or loss in finance costs (note 18).

Borrowings expose the company to liquidity risk and interest rate risk. Refer to note 24 for details of risk exposure and management thereof.

**Trade and other payables**

**Classification**

Trade and other payables (note 11), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

**Recognition and measurement**

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

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

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

If trade and other payables contain a significant financing component, and the effective interest method results in the recognition of interest expense, then it is included in profit or loss in finance costs (note 18).

Trade and other payables expose the company to liquidity risk and possibly to interest rate risk. Refer to note 24 for details of risk exposure and management thereof.

**Cash and cash equivalents**

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the company, and earn interest at the respective short-term deposit rates. The company deposits cash surpluses only with major banks of high-quality credit standing.

# Accounting Policies

### 1.6 Hedge accounting

At the inception of the hedge relationship, the company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the company documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the company actually hedges and the quantity of the hedging instrument that the company actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The company designates the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts.

The company excludes the time value of options and designates only the intrinsic value of options as the hedging instruments in hedges involving options as the hedging instruments. The change in fair value attributable to the time value of options is recognised in other comprehensive income and accumulated in equity as deferred hedging gains (losses). The company only hedges time period related hedged items using options. The change in the aligned time value is recognised in other comprehensive income and is amortised on a systematic and rational basis over the period during which the hedge adjustment for the option's intrinsic value could affect profit or loss (or other comprehensive income, if the hedged item is an equity instrument at fair value through other comprehensive income). However, if hedge accounting is discontinued the net amount (i.e. including cumulative amortisation) that has been accumulated in the deferred hedging reserve is immediately reclassified into profit or loss.

### 1.7 Tax

**Deferred tax assets and liabilities**

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused secondary tax on companies credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused secondary tax on campanies credits can be utilised.

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

# Accounting Policies

### 1.7 Tax (continued)

**Tax expenses**

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income; or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

### 1.8 Leases

The company assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is "identified", which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the company has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

### 1.9 Inventories

Inventories are measured at the lower of cost and net realisable value.

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

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

Inventories includes a "right to returned goods asset" which represents the company right to recover products from customers where customers exercise their right of return under the company returns policy. The company uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. A corresponding adjustment is recognised against cost of sales.

## Accounting Policies

### 1.10 Impairment of assets

The company assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the company also:
- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.
- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

### 1.11 Share capital and equity

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

Ordinary shares are recognised at par value and classified as "share capital" in equity. Any amounts received from the issue of shares in excess of par value is classified as "share premium" in equity. Dividends are recognised as a liability in the company in which they are declared.

# Accounting Policies

### 1.12 Employee benefits

**Short-term employee benefits**

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

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

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

**Defined contribution plans**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the company's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

### 1.13 Provisions and contingencies

Provisions are recognised when:

- the company has a present obligation 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 obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken;
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

## Accounting Policies

### 1.13 Provisions and contingencies (continued)

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised, but are disclosed.

### 1.14 Revenue from contracts with customers

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

The company is principally engaged in the business of mining and selling ore and copper cement. Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer which usually is on delivery of the goods. Revenue is recognised net of discounts, volume rebates, outgoing sales taxes/ goods and service tax and other indirect taxes excluding excise duty. Revenues from sale of by-products are included in revenue.

**Identification of the enforceable contract**

For all ore sales, while there are master services agreements with its customers that set out the general terms and conditions governing any sales that occur, they do not contain any minimum volumes, i.e., the customer is not required to buy any concentrate. The customer is only obliged to purchase metal when it places a purchase order for each shipment. Also, there are no terms which link separate purchase orders. For example, there are no rebates or discounts provided if a customer buys more than a specified amount each year, and there are no penalties that impact overall sales during a period. Therefore, for these arrangements, the enforceable contract has been determined to be each purchase order.

**Application of the variable consideration constraint**

For the company’s long-term contracts that are subject to market-based prices, i.e., there is variable consideration, the company has assessed that at contract inception, this variable consideration will generally be significantly constrained. This is on the basis that the ultimate price they will receive will depend on a range of factors that are highly susceptible to factors outside the company’s influence and include;

- Actions of third parties: the exact date that each shipment occurs (this is relevant because this is the date the market price is determined, or for provisionally priced sales, the date from which the quality procedure commences).
- Volatile commodity market: the price to be received in the future is then based on market-based prices for highly liquid commodities.

The company’s estimates of variable consideration and any disclosures provided in relation to the allocation of that variable consideration to unsatisfied performance obligations, are immaterial. In addition, the company applies the variable consideration allocation exception when allocating the future consideration to future performance obligations.

### 1.15 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

### 1.15 Cost of sales (continued)

Contract costs comprise:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract; and
- such other costs as are specifically chargeable to the customer under the terms of the contract.

Cost of sales is reduced by the amount recognised in inventory as a "right to returned goods asset" which represents the company right to recover products from customers where customers exercise their right of return under the company returns policy.

### 1.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.17 Current versus non-current classification

The company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- 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; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The company classifies all other liabilities as non-current.

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

# Notes to the Annual Financial Statements

## 2. New Standards and Interpretations

### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 4 | 01 January 2021 | The impact of the amendment is not material. |
| • Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 7 | 01 January 2021 | The impact of the amendment is not material. |
| • Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9 | 01 January 2021 | The impact of the amendment is not material. |
| • Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 16 | 01 January 2021 | The impact of the amendment is not material. |
| • Interest Rate Benchmark Reform - Phase 2: Amendments to IAS 39 | 01 January 2021 | The impact of the amendment is not material. |
| • COVID-19 - Related Rent Concessions - Amendment to IFRS 16 | 01 April 2021 | The impact of the amendment is not material. |

# Notes to the Annual Financial Statements

## 2. New Standards and Interpretations (continued)

### 2.2 Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 01 April 2022 or later periods:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | No effetive date | Unlikely there will be a material impact. |
| • Deferred tax related to assets and liabilities arising from a single transaction - Amendments to IAS 12 | 01 January 2023 | Unlikely there will be a material impact. |
| • Disclosure of accounting policies: Amendments to IAS 1 and IFRS Practice Statement 2. | 01 January 2023 | Unlikely there will be a material impact. |
| • Definition of accounting estimates: Amendments to IAS 8 | 01 January 2023 | Unlikely there will be a material impact. |
| • Classification of Liabilities as Current or Non-Current - Amendment to IAS 1 | 01 January 2023 | Unlikely there will be a material impact. |
| • IFRS 17 Insurance Contracts | 01 January 2023 | Unlikely there will be a material impact. |
| • Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 1 | 01 January 2022 | Unlikely there will be a material impact. |
| • Reference to the Conceptual Framework: Amendments to IFRS 3 | 01 January 2022 | Unlikely there will be a material impact. |
| • Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 9 | 01 January 2022 | Unlikely there will be a material impact. |
| • Property, Plant and Equipment: Proceeds before Intended Use: Amendments to IAS 16 | 01 January 2022 | Unlikely there will be a material impact. |
| • Onerous Contracts - Cost of Fulfilling a Contract: Amendments to IAS 37 | 01 January 2022 | Unlikely there will be a material impact. |
| • Annual Improvement to IFRS Standards 2018-2020: Amendments to IAS 41 | 01 January 2022 | Unlikely there will be a material impact. |

## Notes to the Annual Financial Statements

| | 2022 | 2021 |
|---|---|---|
| | N$ '000 | N$ '000 |

### 3. Property, plant and equipment

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Cost or revaluation N$'000 | Accumulated depreciation N$'000 | Carrying value N$'000 | Cost or revaluation N$'000 | Accumulated depreciation N$'000 | Carrying value N$'000 |
| Land and buildings | 85,440 | (80,224) | 5,216 | 85,440 | (80,224) | 5,216 |
| Plant and machinery | 759,250 | (720,843) | 38,407 | 765,930 | (721,248) | 44,682 |
| Mine properties and leases | 1,332,775 | (639,281) | 693,494 | 1,332,775 | (639,281) | 693,494 |
| Capital - Work in progress | 48,109 | - | 48,109 | 48,109 | - | 48,109 |
| **Total** | **2,225,574** | **(1,440,348)** | **785,226** | **2,232,254** | **(1,440,753)** | **791,501** |

**Reconciliation of property, plant and equipment - 2022**

| | Opening balance N$'000 | Disposals N$'000 | Re-estimation - non cash flow N$'000 | Total N$'000 |
|---|---|---|---|---|
| Land and buildings | 5,216 | - | - | 5,216 |
| Plant and machinery | 44,682 | - | 6,274 | 38,407 |
| Mine properties and leases | 693,494 | - | - | 693,494 |
| Capital - Work in progress | 48,109 | - | - | 48,109 |
| | **791,501** | **-** | **6,274** | **785,226** |

**Reconciliation of property, plant and equipment - 2021**

| | Opening balance N$'000 | Disposals N$'000 | Decom-missioning liability N$'000 | Depreciation N$'000 | Total N$'000 |
|---|---|---|---|---|---|
| Land and buildings | 5,216 | - | - | - | 5,216 |
| Plant and machinery | 45,338 | (582) | 328 | (402) | 44,682 |
| Mine properties and leases | 693,494 | - | - | - | 693,494 |
| Capital - Work in progress | 48,109 | - | - | - | 48,109 |
| | **792,157** | **(582)** | **328** | **(402)** | **791,501** |

Registers with details of land and buildings are available for inspection by shareholders or their duly authorised representatives at the registered office of the company. The company tests the total capital investment made for indicators impairment. The following cash generating unit has been identified:

**Mining and refining activities: Skorpion Project**

Management have performed a discounted cash flow calculation as at 31 March 2022 using only ore expected to be received Pit 112. Should, for any reason, the conversion of Namzinc (Proprietary) Limited's refinery not be approved by the board the present value of future expected cash flows from the processing, refining and sale of the remaining oxide ore are greater than the net book value of the mining and refinery assets and therefore the directors are comfortable that the assets are not impaired as at the 31 March 2022.

### 3. Property, plant and equipment (continued)

The recoverable amounts of the cash generating unit are determined from the value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates, exchange rates and expected changes to commodity prices. Management estimates discount rates using pre-tax rates that reflect current market conditions of the time value of money and the risks specifically associated with the cash generating unit. Growth rates are based on industry growth forecasts. Changes in commodity prices are based on past practices and expectations of future changes in the market.

Key assumptions used in impairment calculations, averaged over the life of mine where appropriate, are:

| **Key assumptions** | **2022** | **2021** |
|---|---|---|
| Foreign exchange rate (USD) | 15.66 | 15.29 |
| Average zinc price (USD/t) | 3,067 | 2,504 |

All figures stated above are in nominal terms.

At 31 March 2022, no impairment was necessary related to the Skorpion Project (2021: N$ Nil).

### 4. Inventories

| | | |
|---|---|---|
| Raw materials, consumables | 34,157 | 35,435 |
| Work in progress | - | 2,404 |
| Mining stockpile | 38,393 | 19,671 |
| | 72,550 | 57,510 |
| Inventories (write-down provision) | (17,423) | (17,423) |
| | **55,127** | **40,087** |

The obsolete stock provision has been estimated based on the age of consumables and their rate of movement.

Stockpiles are valued by estimating the zinc content in tons and applying the average cost method to the tons in stock. Zinc content of stockpiles is quantified by performing geological samples on the stockpiles in order to determine the grade (expressed as a percentage). This percentage is then applied to the total tons of ore in the stockpile. At year end, the estimation of grade and zinc content was:

| **Stacker / reclaimer** | **2022** | **2021** |
|---|---|---|
| Average grade (%) | 8.5 | 8.5 |
| Zinc content (tons) | 2,483 | 2,483 |

| **Mining stockpile** | **2022** | **2021** |
|---|---|---|
| Average grade (%) | 5.07 | 5.07 |
| Zinc content (tons) | 1,532 | 1,532 |

## Notes to the Annual Financial Statements

| | 2022<br>N$ '000 | 2021<br>N$ '000 |
|---|---|---|

### 5. Loans to group companies

| | | |
|---|---|---|
| Fellow subsidiaries | | |
| Namzinc (Proprietary) Limited | 2,346,853 | 2,346,853 |

Namzinc (Proprietary) Limited is a fellow subsidiary of Skorpion Mining Company (Proprietary) Limited. Both entities are wholly owned by Skorpion Zinc (Proprietary) Limited.

Settlement of the amount due from Namzinc (Proprietary) Limited is not expected until the company is, in turn, able to settle its liability with Namzinc (Proprietary) Limited.

The receivable is for sale of zinc ore to Namzinc (Proprietary) Limited and is denominated in Namibian Dollars.

**Exposure to credit risk**

Loans receivable inherently expose the company to credit risk, being the risk that the company will incur financial loss if counterparties fail to make payments as they fall due.

Loans receivable are subject to the impairment provisions of IFRS 9 Financial Instruments, which requires a loss allowance to be recognised for all exposures to credit risk. The loss allowance for group loans receivable is calculated based on twelve month expected losses if the credit risk has not increased significantly since initial recognition. In cases where the credit risk has increased significantly since initial recognition, the loss allowance is calculated based on lifetime expected credit losses. The loss allowance is updated to either twelve month or lifetime expected credit losses at each reporting date based on changes in the credit risk since initial recognition. If a loan is considered to have a low credit risk at the reporting date, then it is assumed that the credit risk has not increased significantly since initial recognition. On the other hand, if a loan is in arrears more than 90 days, then it is assumed that there has been a significant increase in credit risk since initial recognition.

In determining the amount of expected credit losses, the company has taken into account any historic default experience, the financial positions of the counterparties as well as the future prospects in the industries in which the counterparties operate.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

### 6. Trade and other receivables

| | 2022 | 2021 |
|---|---|---|
| **Financial instruments:** | | |
| Trade receivables - related parties | 8,874 | 8,874 |
| Other receivables | 1,353 | 1,399 |
| **Non-financial instruments:** | | |
| VAT | 2,464 | 2,022 |
| Prepayments | 29 | 238 |
| **Total trade and other receivables** | **12,720** | **12,533** |

# Notes to the Annual Financial Statements

| | 2022<br>N$ '000 | 2021<br>N$ '000 |
|---|---|---|

## 6. Loans receivable (continued)

### Categorisation of trade and other receivables

Trade and other receivables are categorised as follows in accordance with IFRS 9: Financial Instruments:

| | 2022 | 2021 |
|---|---|---|
| At amortised cost | 10,227 | 10,273 |
| Non-financial instruments | 2,493 | 2,260 |
| | **12,720** | **12,533** |

Other receivables consist of fuel rebate claims.

An amount of N$ 50 943 (2021: N$ 50 943) was provided for as doubtful debt.

### Reconciliation of loss allowances

The following table shows the movement in the loss allowance (lifetime expected credit losses) for lease receivables:

| | 2022 | 2021 |
|---|---|---|
| **Opening balance in accordance with IFRS9** | **(51)** | **(83,823)** |
| Provisions reversed on settled trade receivables | - | 83,772 |
| **Closing balance** | **(51)** | **(51)** |

### Fair value of trade and other receivables

The fair value of trade and other receivables approximates their carrying amounts.

## 7. Cash and cash equivalents

Cash and cash equivalents consist of:

| | 2022 | 2021 |
|---|---|---|
| Bank balances | 5,236 | 6,101 |

All cash balances are held in Namibian dollars.

## 8. Share capital

| | 2022 | 2021 |
|---|---|---|
| **Authorised** | | |
| 4,000 Ordinary shares of N$1 each | 4 | 4 |

3,900 unissued ordinary shares are under the control of the directors in terms of a resolution of members passed at the last annual general meeting. This authority remains in force until the next annual general meeting.

| | 2022 | 2021 |
|---|---|---|
| **Issued** | | |
| 100 Ordinary shares of N$1 each | 1 | 1 |

# Notes to the Annual Financial Statements

## 9. Decommissioning provisions

**Reconciliation of decommissioning provisions - 2022**

| | Opening balance | Utilised during the year | Change in estimate | Total |
|---|---|---|---|---|
| | N$'000 | N$'000 | N$'000 | N$'000 |
| Decommissioning provision | 4,562 | 237 | (382) | 4,417 |

**Reconciliation of decommissioning provisions - 2021**

| | Opening balance | Unwinding of discount | Change in estimate | Total |
|---|---|---|---|---|
| | N$'000 | N$'000 | N$'000 | N$'000 |
| Decommissioning provision | 4,411 | 3,658 | (3,507) | 4,562 |

Provision is made for the present value of costs relating to the decommissioning of the plant or other site preparation work. Estimates are based upon costs that are regularly reviewed and adjusted as appropriate for new circumstances. The current estimate was discounted at a discount rate of 7.79% (2021: 4.50%). These costs are expected to be incurred at the end of the life-of-mine.

In the prior year a new independent closure cost report was received. Costs for the filling of the pit were significantly reduced due to a new agreement with the ministry on the extent to which the pit would need to be filled and secured.

## 10. Restoration provision

**Reconciliation of restoration provision - 2022**

| | Opening balance | Unwinding of discount | Change in estimate | Total |
|---|---|---|---|---|
| | N$'000 | N$'000 | N$'000 | N$'000 |
| **Restoration provision** | 71,933 | 3,741 | (6,031) | 69,643 |

**Reconciliation of restoration provision - 2021**

| | Opening balance | Unwinding of discount | Change in estimate | Total |
|---|---|---|---|---|
| | N$'000 | N$'000 | N$'000 | N$'000 |
| **Restoration provision** | 69,556 | 232 | 2,145 | 71,933 |

The provision for restoration, rehabilitation and environmental liabilities represent management's best estimate of the costs which will be incurred in the future to meet the company's obligations under existing Namibian law and the terms of the company's mining and other licences and contractual arrangements. These amounts are calculated using a discount rate of 7.79% (2021: 4.50%), and become payable on closure of the mine.

In the prior year a new independent closure cost report was received. Costs for the filling of the pit were significantly reduced due to a new agreement with the ministry on the extent to which the pit would need to be filled and secured.

## Notes to the Annual Financial Statements

| | 2022<br>N$ '000 | 2021<br>N$ '000 |
|---|---|---|

### 11. Trade and other payables

| **Financial instruments:** | | |
|---|---|---|
| Trade payables | 781 | 722 |
| Trade payables - related parties | 1,157 | 1,157 |
| Salary accruals | - | 8 |
| Other accrued expenses | 8,035 | 9,719 |
| Other payables | 697 | 360 |
| | **10,676** | **11,966** |

The directors consider that the carrying amounts of accounts payable approximate their fair value.

The average credit period for trade creditors is 30 days after statement. No interest is charged during this period. Thereafter certain suppliers charge interest at various rates. The company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

### 12. Loans from group companies

Subsidiaries

| | | |
|---|---|---|
| Namzinc (Proprietary) Limited | 5,777,874 | 5,747,678 |
| Skorpion Zinc (Proprietary) Limited | 400,386 | 400,386 |
| THL Zinc Namibia Holdings (Proprietary) Limited | 16,600 | 16,600 |
| | **6,194,860** | **6,164,664** |

All loans are unsecured , interest free and no terms of repayment have been set.

Namzinc (Proprietary) Limited is a fellow subsidiary of Skorpion Mining Company (Proprietary) Limited. Both entities are wholly owned by Skorpion Zinc (Proprietary) Limited.

Settlment of the amount due from Namzinc (Proprietary) Limited is not expected until the company is, in turn, able to settle its liability with Namzinc (Proprietary) Limited.

The loan payable to Namzinc (Proprietary) Limited was obtained to assist with trading activities of the company.

Balances payable to Skorpion Zinc (Proprietary) Limited and THL Zinc Namibia Holdings (Proprietary) Limited are for expenses paid on behalf of group companies, and/or on behalf of the company by group companies and then recharged at cost incurred.

**Split between non-current and current portions**

| | | |
|---|---|---|
| Current liabilities | 6,194,860 | 6,164,664 |

**Exposure to liquidity risk**

Refer to note 24 Financial instruments and financial risk management for details of liquidity risk exposure and management.

# Notes to the Annual Financial Statements

| | | 2022 N$ '000 | 2021 N$ '000 |
|---|---|---|---|

## 13. Revenue

| | | | |
|---|---|---|---|
| **Revenue from contracts with customers** | | | |
| Ore sales | | - | 354 |
| Copper cement sales | | - | 28,148 |
| | | **-** | **28,502** |

All revenue is recognised at a point in time when control transfers.

## 14. Other operating income

| | | | |
|---|---|---|---|
| Other income | | 6,070 | 7,132 |

Other income consists mainly of gains from changes in estimates on the provision for decommissioning and restoration in the current financial year. Balance in current and prior year also includes income from scrap sales.

## 15. Other operating losses

| | | | |
|---|---|---|---|
| **Losses on disposals, scrappings and settlements** | | | |
| Property, plant and equipment | 3 | - | (582) |

## 16. Operating loss

Operating loss for the year is stated after charging (crediting) the following, amongst others:

| | | | |
|---|---|---|---|
| **Auditor's remuneration - external** | | | |
| Audit fees | | 965 | 571 |
| **Depreciation and amortisation** | | | |
| Depreciation of property, plant and equipment | | - | 402 |
| **Total depreciation and amortisation** | | **-** | **402** |
| Less: Depreciation and amortisation included in cost of merchandise sold and inventories | | - | (402) |
| **Total depreciation and amortisation expensed** | | **-** | **-** |

## 17. Investment income

| | | | |
|---|---|---|---|
| **Interest income** | | | |
| **Investments in financial assets:** | | | |
| Bank and other cash | | 171 | 280 |

## 18. Finance costs

| | | | |
|---|---|---|---|
| Unwinding of discount on provisions and other liabilities | | 3,979 | 3,890 |

# Notes to the Annual Financial Statements

| | 2022 N$ '000 | 2021 N$ '000 |
|---|---|---|

## 19. Taxation

### Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

| | 2022 | 2021 |
|---|---|---|
| Applicable tax rate | 37.50 % | 37.50 % |
| Increase in unrecognised deferred tax asset | (37.50)% | (37.50)% |
| | **- %** | **- %** |
| Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset has been recognised | 841,912 | 841,912 |

## 20. Cash used in operations

| | 2022 | 2021 |
|---|---|---|
| Loss before taxation | (18,384) | (102,012) |
| **Adjustments for:** | | |
| Depreciation and amortisation | - | 402 |
| Losses on disposals, scrappings and settlements of assets and liabilities | - | 582 |
| Gains on foreign exchange | (139) | - |
| Interest income | (171) | (280) |
| Finance costs | 3,979 | 3,890 |
| Movements in provisions | - | (1,690) |
| **Changes in working capital:** | | |
| Inventories | (15,040) | 14,542 |
| Trade and other receivables | (187) | 92,631 |
| Trade and other payables | (1,290) | (181,726) |
| | **(31,232)** | **(173,661)** |

## 21. Foreign exchange (loss)/gains

| | 2022 Realised N$'000 | 2022 Unrealised N$'000 | 2021 Realised N$'000 | 2021 Unrealised N$'000 |
|---|---|---|---|---|
| Trade payables | - | - | (30) | - |

# Notes to the Annual Financial Statements

| | 2022<br>N$ '000 | 2021<br>N$ '000 |
|---|---|---|

### 22. Changes in loans (payable)/receivable from related parties

The table below details changes in the company's loans including both cash and non-cash changes in order ensure correct classification in the statement of cash flows:

| | 2022 | 2021 |
|---|---|---|
| **Loans from related parties** | | |
| Opening Balance | (6,164,664) | (6,019,079) |
| **Cash flows** | | |
| Financing cash flows | (30,196) | (145,585) |
| **Balance at 31 March** | **(6,194,860)** | **(6,164,664)** |

| | 2022 | 2021 |
|---|---|---|
| **Loans to related parties** | | |
| Opening Balance | 2,346,853 | 2,346,499 |
| **Cash flows** | | |
| Financing cash flows | - | 354 |
| **Balance at 31 March** | **2,346,853** | **2,346,853** |

### 23. Related parties

| | |
|---|---|
| Ultimate holding company | Vedanta Resources Limited |
| Holding company | Skorpion Zinc (Proprietary) Limited |

**Related party transactions**

| | 2022 | 2021 |
|---|---|---|
| **Revenue** | | |
| Namzinc (Proprietary) Limited | - | 354 |
| **Purchase of services** | | |
| Namzinc (Proprietary) Limited | 719 | 39,015 |

# Notes to the Annual Financial Statements

| | | 2022 N$ '000 | 2021 N$ '000 |
|---|---|---|---|

## 24. Financial instruments and risk management

**Categories of financial instruments**

**Categories of financial assets**

**Capital risk management**

For the purpose of the company's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the company's capital management is to ensure the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and, with cognisance of forecast future market conditions and structuring, to maintain an optimal capital structure to reduce the cost of capital.

The company manages its capital to ensure it will be able to continue as a going concern within the THL Zinc Namibia Holdings (Proprietary) Limited group. The company's overall strategy remains unchanged from 2020.

The capital structure of the company consists of holding company and fellow subsidiary loans, cash and cash equivalents and equity attributable to the equity holder comprising issued capital and accumulated losses.

The directors also being the directors of the holding company and sister company Namzinc (Proprietary) Limited are confident that the company, by virtue of being part of THL Zinc Namibia Holdings (Proprietary) Limited, has access to sufficient resources to continue trading for the forseeable future. This assessment was made after due consideration of all the facts and circumstances in evidence at year end and notably includes the consideration that the company's fellow subsidiary, Namzinc (Proprietary) Limited has subordinated its loan to Skorpion Mining Company (Proprietary) Limited until such time as Skorpion Mining Company (Proprietary) Limited is no longer in a net deficit position.

The capital structure and gearing ratio of the company at the reporting date was as follows:

| | Note | 2022 N$ '000 | 2021 N$ '000 |
|---|---|---|---|
| Loans from group companies | 12 | 6,194,860 | 6,164,664 |
| Trade and other payables | 11 | 10,676 | 11,966 |
| **Total borrowings** | | **6,205,536** | **6,176,630** |
| Cash and cash equivalents | 7 | (5,236) | (6,101) |
| **Net borrowings** | | **6,200,300** | **6,170,529** |
| Equity | | (3,074,434) | (3,056,050) |
| Gearing ratio | | (202)% | (202)% |

**Financial risk management**

**Overview**

The company is exposed to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk (foreign currency risk and interest rate risk).

### 24. Financial instruments and risk management (continued)

**Credit risk**

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The company's main exposure to credit risk is to a fellow wholly owned subsidiary which purchases all of its zinc ore.

The company deposits cash surpluses with banks of high credit standing. The credit standing of financial institutions is evaluated from time to time.

The maximum exposure to credit risk is presented in the table below:

| | | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|---|
| | | Gross carrying amount N$'000 | Credit loss allowance N$'000 | Amortised cost / fair value N$'000 | Gross carrying amount N$'000 | Credit loss allowance N$'000 | Amortised cost / fair value N$'000 |
| Loans to group companies | 5 | 2,346,853 | - | 2,346,853 | 2,346,853 | - | 2,346,853 |
| Trade and other receivables | 6 | 12,771 | (51) | 12,720 | 12,584 | (51) | 12,533 |
| Cash and cash equivalents | 7 | 5,236 | - | 5,236 | 6,101 | - | 6,101 |
| | | **2,364,860** | **(51)** | **2,364,809** | **2,365,538** | **(51)** | **2,365,487** |

**Liquidity risk**

The company is exposed to liquidity risk, which is the risk that the company will encounter difficulties in meeting its obligations as they become due.

The company manages its liquidity risk by effectively managing its working capital, capital expenditure and cash flows. The financing requirements are met through a mixture of cash generated from operations and long and short term borrowings. Committed borrowing facilities are available for meeting liquidity requirements and deposits are held at central banking institutions.

The maturity profile of contractual cash flows of non-derivative financial liabilities, and financial assets held to mitigate the risk, are presented in the following table. The cash flows are undiscounted contractual amounts.

### 24. Financial instruments and risk management (continued)

**2022**

| | | Less than 1 year N$'000 | Total N$'000 | Carrying amount N$'000 |
|---|---|---|---|---|
| **Current liabilities** | | | | |
| Trade and other payables | 11 | 10,676 | 10,676 | 10,676 |
| Loans from group companies | 12 | 6,194,860 | 6,194,860 | 6,194,860 |

**2021**

| | | Less than 1 year N$'000 | Total N$'000 | Carrying amount N$'000 |
|---|---|---|---|---|
| **Current liabilities** | | | | |
| Trade and other payables | 11 | 11,966 | 11,966 | 11,966 |
| Loans from group companies | 12 | 6,164,664 | 6,164,664 | 6,164,664 |

**Foreign currency risk**

The company's policy is not to take cover on foreign currency transactions. The company has very limited direct exposure to foreign currency fluctuations.

**Interest rate risk**

Fluctuations in interest rates impact on the value of investments and financing activities, giving rise to interest rate risk.

There have been no significant changes in the interest rate risk management policies and processes since the prior reporting period.

Borrowings are mostly obtained from the holding company and interest rates are managed in accordance with the policies set down by the Vedanta Resources Limited group treasury function. Currently no interest is charged on the holding company loan.

**Interest rate profile**

The interest rate profile of interest bearing financial instruments at the end of the reporting period was as follows:

**Interest rate sensitivity analysis**

The following sensitivity analysis has been prepared using a sensitivity rate which is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. All other variables remain constant. The sensitivity analysis includes only financial instruments exposed to interest rate risk which were recognised at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

# Notes to the Annual Financial Statements

| | 2022<br>N$ '000 | 2021<br>N$ '000 |
|---|---|---|

## 24. Financial instruments and risk management (continued)

| | 2022 | 2022 | 2021 | 2021 |
|---|---|---|---|---|
| **Increase or decrease in rate** | Increase | Decrease | Increase | Decrease |
| **Impact on profit or loss:** | | | | |
| Interest rate 10% (2021: 10%) | 398 | (398) | 389 | (389) |

## 25. Contingent liabilities

| | 2022 | 2021 |
|---|---|---|
| Rosh Pinah Zinc Corporation | 6,000 | 6,000 |

The contingent liability relates to a claim for refund of proportionate costs incurred on the Gergarub Project by Skorpion Mining Company (Proprietary) Limited's joint venture partner, Rosh Pinah Zinc Corporation (RPZC). Skorpion Mining Company (Proprietary) Limited believes it is not liable for the costs, as RPZC was not authorised to incur the expenses. Based on discussion with the company's external legal advisors management have been advised that the likelihood of reimbursement of the N$6 000 000 claimed by RPZC is considered to be remote, and no outflow of economic benefits is expected.

## 26. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

## 27. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The directors believe that the company has adequate financial resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The directors are not aware of any new material changes that may adversely impact the company. The director directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the company.

The loan payable between the company and Namzinc (Proprietary) Limited has been subordinated in favour of other creditors. In addition a letter of guarantee for the company has been issued by the Black Mountain Mining entity confirming that the company will be able to meet its financial obligations as they fall due.