

INDEPENDENT AUDITORS' REPORT

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To the members of Hwange Colliery Company Limited

Report on the Audit of the Financial Statements

Adverse Opinion

We have audited the inflation adjusted financial statements of Hwange Colliery Company Limited as set out on pages 9 to 50, which comprise the inflation adjusted statement of financial position as at 31 December 2020, the inflation adjusted statement of profit or loss and other comprehensive income, the inflation adjusted statement of changes in equity and the inflation adjusted statement of cash flows for the year then ended, and the notes to the inflation adjusted financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters described in the Basis for Adverse Opinion section of our report, the inflation adjusted financial statements do not present fairly, in all material respects, the inflation adjusted financial position of Hwange Colliery Company Limited as at 31 December 2020, and its inflation adjusted financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies and Other Business Entities Act (Chapter 24:31).

Basis for Adverse Opinion

Non-compliance with IAS 21 on the accounting of comparatives and transactions for the period

On 1 October 2018, the Reserve Bank of Zimbabwe (RBZ) issued a Monetary Policy Statement which directed banks to separate bank accounts into Real Time Gross Settlement Foreign Currency Accounts (RTGS FCAs) and Nostro FCAs. On 20 February 2019, a Monetary Policy

Statement was issued, denominating the existing RTGS balances, bond notes and coins in circulation as RTGS dollars in order to establish an exchange rate between the existing monetary balances and foreign currency. The RTGS dollars became part of the multi-currency system in Zimbabwe through the issuance of statutory instrument (S.I.) 33/2019, with an effective date of 22 February 2019.

In order to comply with SI 33/2019, the RTGS transactions and balances for the prior year were accounted for on the basis of a rate of 1:1 between USD and RTGS. The Company changed the functional currency on 22 February 2019 in compliance with SI 33/2019. This was not consistent with IAS 21, in which compliance would have resulted in the reassessment of the functional currency at a date earlier than 22 February 2019.

In addition, foreign currency denominated transactions and balances for the year were translated into the functional and presentation currency using exchange rates which were not considered appropriate spot rates for translations as required by IAS 21. The opinion on the prior year financial statements was modified in respect of this matter and the misstatements have not been corrected in these financial statements.

Had the Company applied the requirements of IAS 21, many of the elements of the financial statements would have been materially impacted and therefore the departure from the requirements of IAS 21 is considered to be material and pervasive to the financial statements, taken as a whole.

Non-compliance with International Accounting Standard (IAS) 29 – Financial Reporting in Hyperinflationary Economies

The Directors have applied the IAS 29 – Financial Reporting in Hyperinflationary Economies with effect from 1 January 2019 to 31 December 2020. However, its application was based on prior and current year's financial information which was not in compliance with IAS 21 as described above. Had the correct base numbers been used, most elements of the consolidated financial statements would have been materially different. The impact of the departure from the requirements of these standards is considered material and pervasive to the consolidated financial statements.

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

Limitation of scope

Included in the company's revenue and inventory are amounts attributable to the medical services and estates divisions, which account for 10% and 3% of the total revenue and inventory of the company, respectively. There were inadequacies noted in relation to the record keeping and controls over revenue and inventory for the medical services and estates divisions. As a result, there were no satisfactory auditing procedures that we could perform to obtain reasonable assurance that revenues and inventories for the medical services and estates divisions were properly recorded.

Financial results of equity accounted investments included in the financial statements not availed.

As described in **note 16** to these financial statements, financial information for the Company's investments in the joint venture arrangement with Hwange Coal Gasification Company Limited were not availed for our review. In addition, the financial information for Zimchem Refiners (Private) Limited and Clay Products Limited was unaudited. Accordingly, we were unable to determine whether any adjustments might be necessary to the share of profit from equity accounted investments, and the effect this might have on the financial statements.

Going concern

As described in **note 33** to these financial statements, Hwange Colliery Company is in its third year under reconstruction in terms section 4 of the reconstruction of State-Indebted Insolvent Companies Act (Chapter 24:27). This was done to rescue the company from the current difficulties which resulted in the total liabilities of the company exceeding total assets.

As more fully disclosed in **note 33** to these financial statements the Company's Administrator has initiated the following amongst other turnaround initiatives:

- Implementation of a sales plan which will be driven by the sale of high value coking coal to mainly coke batteries and industry.
- Implementation of a plan to fully capacitate the open cast mine as well as increase the haulage capacity, the washing capacity and replacement of the continuous miner and shuttle cars.
- The company will also continue with the already implemented tight cost control and working capital management system which is allocating most of the cash resources towards the operations requirements.
- The company will continue with the scheme of arrangement agreed payment plan to creditors although the timelines maybe are adjusted through engagements with all the creditors.

The ability of the Company to continue operating as a going concern is dependent on the success of the turnaround initiatives being pursued by the Company's Administrator.

We draw attention to note 40 to the financial statements, which describes the uncertainties relating to the possible effects of the COVID-19 pandemic on the Company.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Adverse Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed the key Audit Matter
<p>Allowance for credit losses</p> <p>The Company has trade receivables amounting to ZWL 520 728 000 and allowance for credit losses of ZWL 147 840 000 as disclosed in note 21 to the financial statements and form a major portion of the Company's assets.</p> <p>We considered this area a key audit matter as it requires the application of subjective assumptions and judgement by management.</p>	<ul style="list-style-type: none"> • We reviewed the methodology and assumptions used in determining the allowance for credit losses by reference to internal and external evidence, as well as the appropriateness of the process of making such estimates. • Performed an independent assessment of the allowance for credit losses and compared our results to the management estimate so as to ascertain the adequacy of allowance for credit losses. <p>We considered management's judgement to be reasonable and we satisfied ourselves that the allowance for credit</p>

	losses provided by the Company is adequate and appropriate.
<p>Valuation of inventory for coal and coal related products</p> <p>The inventory of the company includes coal and coal related products and most of the costs of production are fixed costs. The Company is currently operating at below full capacity and there is a risk that the unit cost of production exceeds the net realisable value of the coal and coal related products upon sale to customers.</p> <p>The Company sells coal fines to cement and brick manufactures and has included in its inventories, coal fines valued at ZWL 332 639 000 as at 31 December 2020. Coal fines are a by-product from crushing and processing of coal various sizes of coal products.</p> <p>The valuation of coal and coal related products has been considered a key audit matter.</p>	<p>Our audit procedures included attendance at year-end physical inventory counts to observe how management and the experts/surveyors involved quantified the inventory.</p> <ul style="list-style-type: none"> • We considered the competence of the surveyors as evidenced by certification, license or recognition by the appropriate professional board. • We reviewed the results of their reports, and sought to understand and corroborate the reasons for significant or unusual movements in inventory quantities. • We reviewed the methods and assumptions used by the experts. • We reviewed the most recent prices at which coal and coal related products had been sold to customers and verified whether the inventory was carried at the lower of cost and net realisable value. • Reviewed the financial statements to ascertain whether the inventory for coal and coal related products had been correctly classified as either current or non-current assets. • Inspected the financial statements to ascertain whether management had made appropriate disclosures with regards to coal and coal related products. <p>We are satisfied that coal and coal related products, including coal fines, have been properly classified and accounted for in the financial statements.</p>

Other information

The Administrator is responsible for the other information. The other information comprises the Administrator's Report which we obtained prior to the date of this auditors' report. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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 Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial statements, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 management.
- Conclude on the appropriateness of management's 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

In our opinion, except for the non-compliance with International Accounting Standards as described in our Basis for Adverse Opinion, the Financial statements have been properly prepared in compliance with the requirements of the Companies and Other Business entities Act (Chapter 24:31) and the relevant Statutory Instruments SI 33/99 and SI 62/96.

The engagement partner on the audit resulting in this Independent auditor's report is Farai Chibisa.

Grant Thornton

Farai Chibisa
Partner

Registered Public Auditor (PAAB No: 0547)

Grant Thornton
Chartered Accountants (Zimbabwe)
Registered Public Auditors

HARARE

.....31 May 2021