

# ACCOUNTING POLICIES

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## 1. ACCOUNTING POLICIES

This summary of the principal accounting policies of the Montauk Holdings Limited Group is presented to assist with the evaluation of the consolidated annual financial statements.

### a) Basis of preparation

The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), the South African Institute of Chartered Accountants (“SAICA”) Financial Reporting Guides as issued by the Accounting Practices Committee, the South African Companies Act, No. 71 of 2008, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and the Listings Requirements of the JSE Limited. The consolidated annual financial statements are presented in US Dollars. The consolidated annual financial statements have been prepared under the historical cost convention, as modified by the revaluation to fair value of certain financial instruments as described in the accounting policies below. The accounting policies are consistent with that applied in the previous year.

### b) Basis of consolidation

The consolidated annual financial statements include the financial information of subsidiaries.

#### i) *Subsidiaries*

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Company records its investment in subsidiaries at cost less any impairment charges. These interests include any intergroup loans receivable, which represent by nature a further investment in the subsidiary.

#### ii) *Transactions and non-controlling interests*

For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests and direct costs incurred in respect of transactions with non-controlling interests are also recorded in equity.

### c) Foreign exchange

#### i) *Functional and presentation currency*

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated annual financial statements are presented in US Dollars, which is the Group’s presentation currency.

#### ii) *Transactions and balances*

The financial statements for each Group company have been prepared on the basis that transactions in foreign currencies are recorded in their functional currency at the rate of exchange ruling at the date of the transaction. Monetary items denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date with the resulting translation differences recognised in profit or loss.

### d) Business combinations

#### i) *Subsidiaries*

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any minority interest in the acquiree either at fair value or at the minority interest’s proportionate share of the acquiree’s net assets.

#### ii) *Goodwill*

Goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group’s interest in the fair value of the identifiable assets (including intangibles), liabilities and contingent liabilities of the acquired entity at the date of acquisition. Where the fair value of the Group’s share of identifiable net assets acquired exceeds the fair value of the consideration, the difference is recognised immediately in profit or loss.

**iii) Common control transactions**

Acquisitions of subsidiaries which do not result in a change of control of the subsidiaries are accounted for as common control transactions. The excess of the cost of the acquisition over the Group's interest in the carrying value of the identifiable assets and liabilities of the acquired entity is carried as a non-distributable reserve in the consolidated results.

**e) Property, plant and equipment**

Property, plant and equipment are stated at cost net of accumulated depreciation and any impairment losses.

Assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

**i) Depreciation**

No depreciation is provided on freehold land or assets in the course of construction. In respect of all other property, plant and equipment, depreciation is provided on a straight-line basis at rates calculated to write off the cost, less the estimated residual value of each asset over its expected useful life as follows:

Freehold buildings and infrastructure	10 – 50 years
Leasehold improvements	Period of the lease
Other equipment and vehicles	3 – 10 years
Plant and machinery	5 – 12½ years

**ii) Capitalisation of borrowing costs**

Direct financing costs incurred, before tax, on major capital projects during the period of development or construction that necessarily take a substantial period of time to be developed for their intended use are capitalised up to the time of completion of the project.

**f) Intangible assets**

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Cost is usually determined as the amount paid by the Group.

Amortisation is recognised together with depreciation in profit or loss.

Intangible assets with indefinite lives are not amortised but are subject to annual reviews for impairment.

**i) Emission allowances**

Emission allowances consist of credits that need to be applied to nitrogen oxide (NOx) emissions from internal combustion engines. These engines emit levels of NOx for which specific allowances are required in certain regions of states in the United States of America. The allowances available for use each year are capped at a level necessary for ozone attainment per the National Ambient Air Quality Standards. Certain assets acquired through the acquisition of a subsidiary, by Montauk Energy Holdings LLC, qualify for NOx allowances. These have been recognised at fair value at date of acquisition, have indefinite useful lives and, as a result, are not amortised. These assets are tested annually for impairment. There is currently no indicator for impairment.

Intangible assets with finite lives are amortised over their estimated useful economic lives and only tested for impairment where there is an indicator of impairment. The directors' assessment of the useful life of intangible assets is based on the nature of the asset acquired, the durability of the products to which the asset attaches and the expected future impact of competition on the business.

**i) Gas rights**

Gas rights are amortised using the units of production method of depletion over the gas rights' term.

**ii) Interconnection**

The interconnection intangible asset is the exclusive right to utilise an interconnection line between the operating plant and a utility substation to transmit produced electricity. Included in that right is full maintenance provided on this line by the utility.

## ACCOUNTING POLICIES continued

### **g) Financial assets and financial liabilities**

Financial assets and financial liabilities are initially recognised at fair value plus any directly attributable transaction costs (transaction costs are not included on initial recognition for financial instruments carried at fair value through profit or loss).

Financial assets consist of cash, investments in equity instruments, contractual rights to receive cash or another financial asset, or contractual rights to exchange financial instruments with another entity on potentially favourable terms.

Financial liabilities are recognised when there is a contractual obligation to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms.

#### **i) Trade receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less an allowance for impairment. A provision allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the terms of the receivables.

#### **ii) Financial liabilities at amortised cost**

##### *Trade payables*

Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

##### *Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs. Borrowings are subsequently stated at amortised cost using the effective interest rate method and include accrued interest.

#### **iii) Cash and cash equivalents**

Cash and cash equivalents are carried at cost and include cash in hand, bank deposits and bank overdrafts.

#### **iv) Fair value**

If the market for a financial asset is not active, and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

### **v) Impairment**

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment testing of trade receivables is described in note (g)(i) above.

### **h) Derivative financial assets and financial liabilities**

The Group enters into energy price derivatives in the ordinary course of business in order to hedge its exposure to energy price fluctuations. The Group does not apply hedge accounting and all fair value movements are recognised immediately in profit or loss.

### **i) Inventories**

Inventories are stated at the lower of cost or net realisable value.

### **j) Renewable identification numbers ("RINs")**

The Group generates RINs through its production and sale of renewable natural gas ("RNG") used for transportation purposes as prescribed under the Renewable Fuel Standard, administered by the United States Environmental Protection Agency. The RINs that the group generate are able to be separated and sold independent from the energy produced, therefore no cost is allocated to the RIN when it is generated.

### **k) Employee share incentive schemes**

The Group grants shares and share appreciation rights to employees in terms of the Montauk Holdings Restricted Stock Plan and the Montauk Holdings Share Appreciation Rights Scheme respectively. In terms of IFRS 2 these instruments are fair valued at the date of grant and the fair value determined on the date of grant recognised as an expense over the relevant vesting period.

### **l) Impairment**

This policy covers all assets except inventories (see note (i)) and financial assets (see note (g)). Impairment reviews are performed by comparing the carrying value of the asset to its recoverable amount, being the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is considered to be the amount that could be obtained on disposal of the asset. The value in use of the asset is determined by discounting, at a market-based pre-tax discount rate, the expected future cash flows resulting from its continued use, including those arising from its final disposal. When the carrying values of non-current assets are written down by any impairment amount, the loss is recognised in profit or loss in the period in which it is incurred.

Intangible non-current assets with an indefinite life are tested annually for impairment. Assets subject to amortisation are reviewed for impairment if circumstances or events change to indicate that the carrying value may not be fully recoverable.

#### m) Provisions

##### i) *Asset retirement obligations*

Long-term environmental obligations are based on the Group's environmental plans, in compliance with current regulatory requirements. Provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the reporting date. The estimated cost of rehabilitation is reviewed annually and adjusted as appropriate for changes in legislation or technology. Cost estimates are not reduced by the potential proceeds from the sale of assets or from plant clean-up at closure, in view of the uncertainty of estimating the potential future proceeds.

Expenditure on plant and equipment for pollution control is capitalised and depreciated over the useful lives of the assets whilst the cost of ongoing current programmes to prevent and control pollution and to rehabilitate the environment is charged against income as incurred.

##### n) **Disposal group assets and liabilities held for sale**

Items classified as disposal group assets and liabilities held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Such disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continued use.

##### o) **Revenue recognition**

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

Revenue is recorded when earned for the sale of renewable natural gas and electricity, along with environmental attributes that are bundled and sold along with the energy, based on output actually delivered.

All other revenue, including environmental attributes that are not bundled and sold along with the energy, are recorded when realised or realisable and earned.

##### i) **Interest income**

Interest income is recognised using the effective interest rate method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount by discounting the estimated future cash flows at the original effective interest rate and records the discount as interest income.

#### p) **Leases**

##### i) *The Group is the lessee*

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the period of the lease.

#### q) **Income tax**

Tax is recognised in the statement of comprehensive income or loss, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. The Group's liability for current taxation is calculated using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is provided in full using the statement of financial position liability method, in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements.

Deferred tax assets are regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it is probable that future taxable profit will be available against which the temporary differences (including carried forward tax losses) can be utilised. Deferred tax is measured at the tax rates expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the reporting date. Deferred tax is measured on a non-discounted basis.

## ACCOUNTING POLICIES continued

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### r) Employee benefits

#### i) Leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability to the employees for annual leave up to the financial year-end date. This liability is included in "provisions" in the statement of financial position.

#### ii) Bonus plans

The Group recognises a liability and an expense for incentive compensation bonuses awarded based on the achievement of Group and personnel goals where contractually obliged or where there is a past practice that has created a constructive obligation. An accrual is maintained for the appropriate proportion of the expected bonuses which would become payable at year-end.

## 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Principles of critical accounting estimates and assumptions

#### i) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income

taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Section 382 of the United States Internal Revenue Code has the potential to limit the Company's ability to utilise existing net operating loss carry-overs once the Company experiences an ownership change. Generally, an ownership change occurs when, within a span of 36 months (or, if shorter, the period beginning the day after the most recent ownership change), there is an increase in the stock ownership by one or more shareholders of more than 50 percentage points. Management has completed an Internal Revenue Code section 382 analysis of the loss carry-forwards and determined that all loss carry-forwards were utilisable and not restricted under section 382 as of 31 March 2017.

During the current year management reviewed the probability that its loss carry-forwards will be utilised in the near future. Using the current financial year operations as a base for production and operating expenses, together with available commodity and attribute pricing, management conservatively projected a five-year earnings forecast on a monthly basis. Based on the projected results and future board-approved development projects, management projected full utilisation of the loss carry-forwards within the next three financial years and well in advance of any expiration. Refer to note 4 for the deferred tax asset raised.

**3. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS ISSUED THAT ARE NOT YET EFFECTIVE**

3.1 Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2017 or later periods which the Group has not early adopted:

Standard	Details	Annual periods beginning on or after
IFRS 15: Revenue from Contracts with Customers	<p>New standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five-step methodology that is required to be applied to all contracts with customers.</p> <p>The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.</p> <p>The new standard supersedes:</p> <ul style="list-style-type: none"> <li>• IAS 11: Construction Contracts;</li> <li>• IAS 18: Revenue;</li> <li>• IFRIC 13: Customer Loyalty Programmes;</li> <li>• IFRIC 15: Agreements for the Construction of Real Estate;</li> <li>• IFRIC 18: Transfers of Assets from Customers; and</li> <li>• SIC-31: Revenue – Barter Transactions Involving Advertising Services.</li> </ul> <p>The Group will determine the financial impact of the adoption of IFRS 15 closer to the date of application.</p>	The Group will apply IFRS 15 from annual periods beginning 1 April 2018
IFRS 16: Leases	<p>New standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7: Statement of Cash Flows.</p> <p>IFRS 16 contains expanded disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee.</p> <p>IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.</p> <p>IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.</p> <p>IFRS 16 supersedes the following standards and interpretations:</p> <ul style="list-style-type: none"> <li>• IAS 17: Leases;</li> <li>• IFRIC 4: Determining Whether an Arrangement Contains a Lease;</li> <li>• SIC-15: Operating Leases – Incentives; and</li> <li>• SIC-27: Evaluating the Substance of Transactions Involving the Legal Form of a Lease.</li> </ul> <p>The Group will determine the financial impact of the adoption of IFRS 16 closer to the date of application.</p>	The Group will apply IFRS 16 from annual periods beginning 1 April 2019