KeatonEnergy

Keaton Energy Holdings Limited

Integrated Annual Report 2016

Keaton Energy Holdings Limited

Welcome to the Keaton Energy Integrated Annual Report 2016

Keaton Energy is a South African-based coal mining company with its ordinary shares listed for trading on the main board of the JSE under the share code KEH.

Keaton Energy's flagship colliery, Vanggatfontein, produces coal for supply to Eskom and metallurgical coal for supply to domestic industrial consumers. Vaalkrantz whose disposal is subject to section 11 Ministerial consent was placed on care and maintenance subsequent to year-end. Vaalkrantz produced anthracite for domestic and international customers.

We employ a forward thinking approach to ensure our sustainability, continually seeking new revenue streams, development projects and means to further increase LOM at our existing operations. We also look to capitalise on high-growth opportunities to continue diversifying and mitigating risk.

www.keatonenergy.co.za

Our investment case

Our strategic priorities, measures of success, principal risks, governance and executive remuneration:

- > Coal remains the major energy source for electricity production worldwide
- > Long-life Vanggatfontein Colliery
- > Development of long-life Moabsvelden Project
- > Strong internal pipeline of projects
- > Long-term offtake contract for existing production
- > Notable safety record
- > Excellent labour relations record
- > Healthy margins
- > Goal driven management team
- > Efficient and effective decision-making
- > Ability to capitalise on high growth opportunities
- > Agile and continually seeking new revenue streams

Contents

About this Integrated Annual Report

Scope and boundaries

Our 2016 Integrated Annual Report presents a concise, integrated overview of the financial, operational and ESG performance of the group for the year 1 April 2015 to 31 March 2016, and follows our Integrated Annual Report for the previous year published in September 2015.

The report covers the holding company, Keaton Energy, and all of its operations and subsidiaries as illustrated in the corporate structure on pages 12 and 13. There have been no restatements of previously reported information save for those set out in the statements of profit or loss and other comprehensive income on page 102.

Reporting approach

In compiling the report, we were guided by international and South African reporting guidelines including King III and the International Integrated Reporting Framework (issued in December 2013), as well as best practice. In addition, we comply with the disclosure requirements of South African legislation including the Companies Act, JSE Listings Requirements, and SAICA Financial Reporting Guides as issued by the Accounting Practices Committee as well as with IFRS.

The statement of Coal Resources and Coal Reserves has been prepared in compliance with the South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC Code, 2009). The sustainability information has been compiled with reference to the GRI G4 guidelines based on a self-declared core compliance. The GRI index is available on our website at www.keatonenergy.co.za.

We have determined materiality based on the following criteria:

- Issues that are critical to achieving our strategic objectives and therefore the sustainability of our business.
- Key risks identified by our risk management process.
- Feedback from our key stakeholders.

Feedback on report

We welcome your feedback on this report. Please email your comments to investors@keatonenergy.co.za.

The matters below have accordingly been determined as material, and we endeavour to discuss these in detail in this report:

Safety

Zero harm to our people is our number one priority. Detailed information regarding our safety programmes and statistics is provided on page 30.

Labour

Our employees are a key enabler of our success and we operate in a volatile labour market which poses a considerable risk. Information regarding the management of our workforce in this context appears on page 56.

Production

The majority of our coal production is sold to Eskom, with the balance sold locally into the domestic metallurgical industry. More details on our business model and production plans appear on pages 20 and 21.

Compliance

Mining in South Africa is subject to an array of legislative obligations, including compliance with the Mining Charter, health and safety, labour and environmental laws. Our compliance is addressed throughout this report as well as in supplementary information such as the Mining Charter Scorecard provided on our website at www.keatonenergy.co.za.

Stakeholder engagement

Critical to maintaining the group's social licence to operate, we must identify, understand and respond appropriately to issues and concerns raised by a broad stakeholder base. More information regarding our stakeholder engagement activities is provided on page 75.

Environmental best practice

We operate in a high-impact industry and minimising our environmental impact is key to our operational integrity and sustainability. Details of our environmental impacts and our efforts to mitigate these are provided on pages 33 to 36.

Our resources and reserves

The Coal Resources and Coal Reserves which the company holds through its Mining and/or Prospecting Rights represent the foundation of our strategy and the reason for our continued existence. Understanding and managing this natural resource is fundamental to the long-term success of our collieries and our sustainable development strategy. Read more about our Coal Resources and Coal Reserves on pages 46 to 55 and in the full report on our website at www. keatonenergy.co.za.

Assurance

Keaton Energy's external auditors, KPMG Inc., have independently audited the financial statements for the year ended 31 March 2016. Their unqualified audit report is set out on pages 100 and 101. The scope of their audit is limited to the information set out in the financial statements on pages 102 to 187.

David Salter
Non-Executive Chairman

Mandi Glad
CEO

Jacques Rossouw
CFO

Key company data

Keaton Energy Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2006/011090/06
ISIN: ZAE000117420
JSE Main Board sector: Coal
Share code: KEH
Listing date: 2008
Shares in issue: 291 994 256 (at 31 March 2016)

The group's Executive Directors are Mandi Glad (CEO) and Jacques Rossouw (CFO). They can be contacted at the registered office of the company as detailed below.

The company's contact details are disclosed on the IBC.

Obtaining your Keaton Energy reports

Download these in PDF format from:
www.keatonenergy.co.za
or request your printed copies from:
Keaton Energy Holdings Limited
Ground Floor, Eland House
The Braes, 3 Eaton Road, Bryanston, 2191
South Africa
Tel: +27 (0) 11 317 1700
Fax: +27 (0) 11 463 4759

Learn more about Keaton Energy
www.keatonenergy.co.za

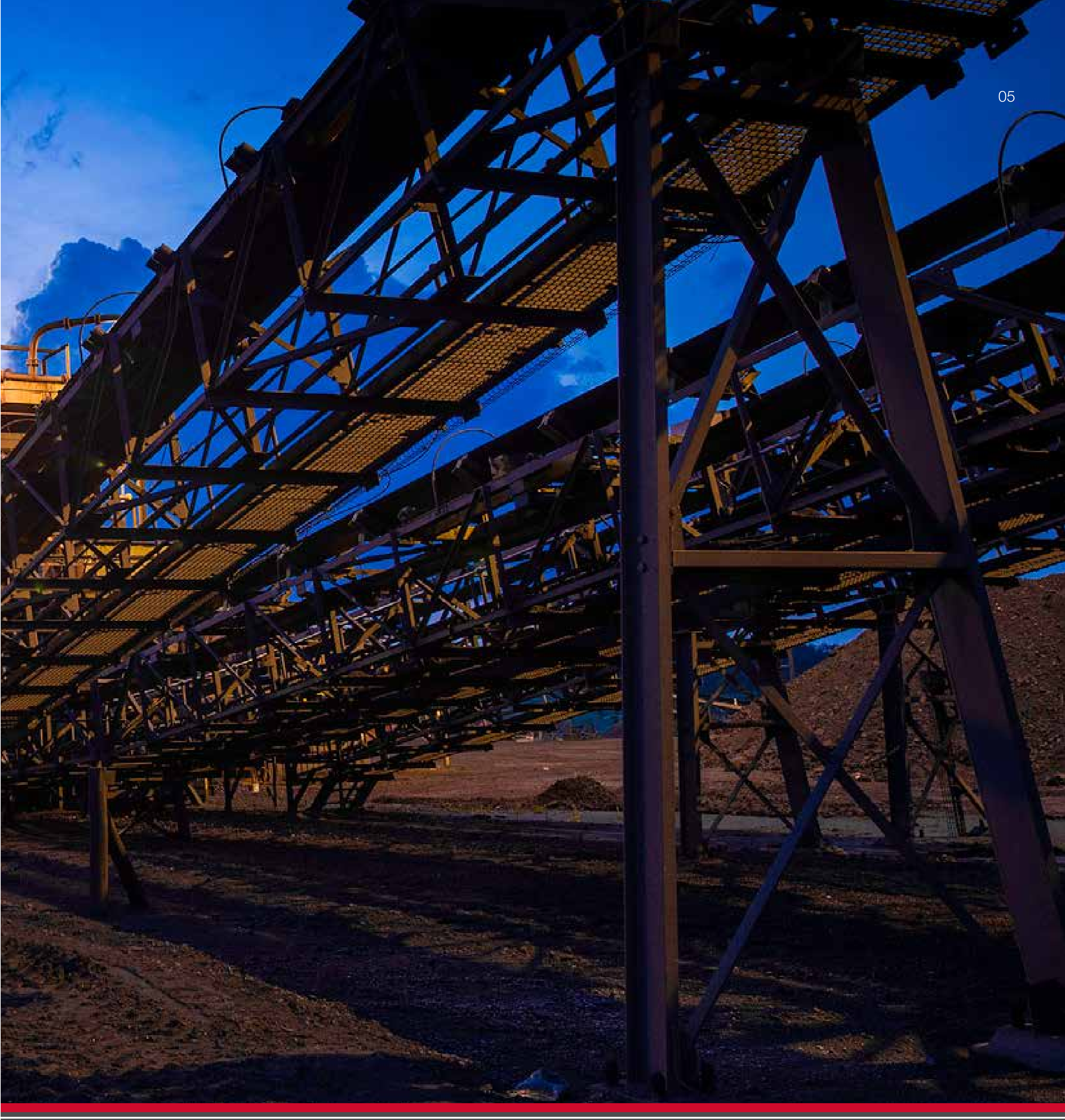
Additional web information

This icon denotes additional information on a particular subject discussed in the Integrated Annual Report, which can be found on the website at www.keatonenergy.co.za.

Sustainability theme discussed

This icon denotes a sustainability theme discussed in a particular section of the Integrated Annual Report.

Group overview



Salient features

Financial

Revenue from continuing operations **R1.03 billion**

R80.4 million debt repaid

EBITDA at Vanggatfontein **R620 million** (FY15: R627 million)

Cash generated from operations **R470.2 million**

HEPS from continuing operations **(16.5) cents per share** down from **12.5 cents per share**

Operational

Continued superb performance at **Vanggatfontein**

Sale of KZN anthracite assets concluded

Mining permit granted for the remining of historic discard dumps at **Balgray**

Focused on people

Continued focus on **improving employment equity** and **driving transformation**

Focus on **constructive** and **strengthened relationships** with **organised labour**

New **HDSA** local supplier awarded a **coal haulage contract**

Commitment to our communities

Established and maintained **formal relationships** with relevant provincial government departments to **facilitate future public-private partnerships** in delivering local economic development projects

Increased meaningful engagement with host communities with a view to **increasing** their **participation** in the **business value chain**

- Potential host community service providers invited to register on the vendor database
- Potential candidates for enterprise development initiatives identified

Group overview

Who we are

Keaton Energy is a leading South African junior coal miner, with a total Coal Resource of 384.2Mt and ROM Coal Reserve of 84.3Mt under management.

Labour force

868 employees
inclusive of contractors
(FY15: 1 433)

Total production

2.7Mt (FY15: 2.9Mt)

Vanggatfontein

Safety

0.14 LTIFR
(FY15: 0.10)

Safety first

Sales volumes

2.36Mt (FY15: 2.45Mt)

– Thermal coal sales
down 2% to 2.24Mt

– 5 seam metallurgical coal sales
down 22% to 0.1Mt

Geographical footprint

* *Classified as a discontinued operation.*

Key milestones

A platform for growth
A track record of delivery

2006

Keaton Energy **established**

KeatonEnergy»
Keaton Energy Holdings Limited

2008

Keaton Energy listed on the Main Board, **JSE** in April 2008

JSE

2009

163Mt Resource and **25.9Mt** Reserve declared at Vanggatfontein in May

2010

Earthworks at Vanggatfontein **commenced** in February

First **5 seam coal delivered** from Vanggatfontein in December

2011

First **Eskom coal produced** from Vanggatfontein in June

Acquisition of LME concluded in December

2012

1 249% increase in revenue to **R474 million**

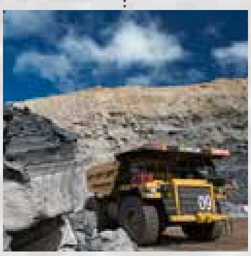
99% increase in ROM production to **560kt** at Vaalkrantz

2013

Zero LTIFR at Vanggatfontein

94% increase in revenue to **R919 million**

58% increase in Eskom sales to **1.5Mt**



2014

200% increase in HEPS to **30.3 cps**

49% increase in group revenue to **R1.4 billion**

Acquisition of Xceed Resources Limited concluded

R350 million financing facility concluded

2015

5% increase in group revenue to **R1.45 billion**

Cash generated from operations **up 29% to R536.9 million**

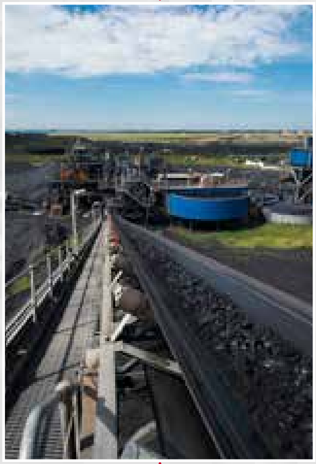
Construction of **filter press plant** at Vanggatfontein

New 32-Ash anthracite product delivered to export market

R83 million debt repaid

Implementation of **SAP ERP** across the group

2016



Revenue from continuing operations **R1.03 billion**

Cash generated from operations **R470.2 million**

Corporate structure

Keaton Energy Holdings Limited

Keaton Administrative and Technical Services Proprietary Limited	Keaton Energy Holdings Limited **100%**	
Keaton Mining Proprietary Limited	Keaton Energy Holdings Limited **100%** from November 2015	*Colliery/project:* **Vanggatfontein Sterkfontein**
Xceed Resources Limited	Keaton Energy Holdings Limited **100%**	
Labohlano Trading 46 Proprietary Limited	Keaton Energy Holdings Limited **100%** from August 2015	*Project:* **Sterkfontein**
Leeuw Mining and Exploration Proprietary Limited	Keaton Energy Holdings Limited **100%** from September 2015	*Colliery/projects:* **Vaalkrantz Koudelager Balgray**
Amalahle Exploration Proprietary Limited	Keaton Energy Holdings Limited **100%** from August 2015	*Project:* **Mooiklip**

Ausco Services Proprietary Limited	Xceed Resources Limited 100%		
Ausco Finance Proprietary Limited	Xceed Resources Limited 100%		
Focus Coal Investments Proprietary Limited	Xceed Resources Limited 100%		
Neosho Trading 86 Proprietary Limited	Focus Coal Investments Proprietary Limited 74%	DL Sikhosana AP Sikhosana ME Dhladhla 26%	*Project:* **Moabsvelden**
Richtrau No 377 Proprietary Limited	Focus Coal Investments Proprietary Limited 15%	Hampfuna Mining and Exploration Proprietary Limited 85%	*Project:* **Roodepoort**
Richtrau No 379 Proprietary Limited	Focus Coal Investments Proprietary Limited 15%	Hampfuna Mining and Exploration Proprietary Limited 85%	*Project:* **Bankfontein**
Leeuw Braakfontein Colliery Proprietary Limited	Leeuw Mining and Exploration Proprietary Limited 100%	*Project:* **Braakfontein**	

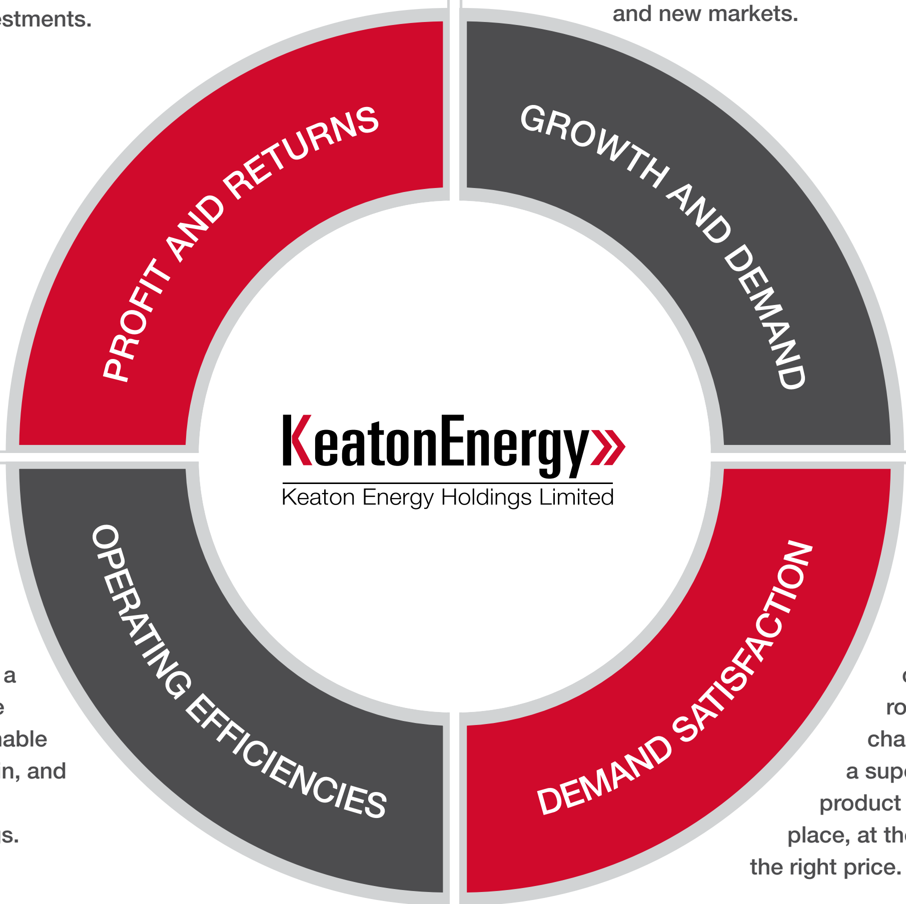
Strategy scorecard

Principles of our strategy

Our overriding strategic objective is to drive sustainable growth in a safe manner while creating an attractive investment case with steady returns for our shareholders. We are a South African-based company in the energy business, focused on thermal and metallurgical coal and exploring opportunities to enter the power generation market.

Optimising our business portfolio and managing targeted financial performance for the long term – delivering earnings growth and attractive returns on capital investments.

Driving growth by building new relationships to supply product of superior quality that consistently satisfies demand through new projects, acquisition opportunities, and new markets.



Focus on operational excellence, developing a competitive and sustainable supply chain, and delivering cost savings.

Developing and maintaining competitive route-to-market channels, delivering a superior quality product at the right place, at the right time, at the right price.

We manage each operating mine for optimal production, focusing on reducing unit cost per saleable tonne, developing our projects innovatively through available synergies that will optimise initial capital outlays while reducing ongoing operating costs. We support this with innovative thinking to generate alternative revenue streams through new saleable products into new markets by leveraging existing resources and infrastructure.

We prioritise sustainable operations by actively minimising our environmental impact and effect on surrounding communities and the safety and health risks to which our employees are exposed in the ordinary course of business. We search constantly for both resource replacement and growth opportunities to ensure longevity for our business.

See below our scorecard including these objectives:

Strategic objective	Progress in FY16	Focus in FY17
Optimising our resources and driving continuous improvement		
Optimise Vanggatfontein	• Utilisation of available plant capacity • Expand slurry and discard sales markets • Improve coal recovery and cost cutting • Continue Surface Rights acquisition discussions • Planning of integration of Moabsvelden into the Vanggatfontein complex	• Sustain utilisation of the current capacity and explore optimisation strategies • Grow slurry and discard markets • Conclude Surface Right acquisition • Finalise integration of Moabsvelden into Vanggatfontein • Sustain coal recovery strategies and deliver coal safely
Stabilisation of Vaalkrantz	• Continue investigation into incident of theft and fraud • Place colliery on care and maintenance • Disposal of loss making colliery	• Finalise investigation into the incident of theft and fraud • Conclude disposal of LME
Bring Moabsvelden online	• Continued interaction with Eskom to conclude CSA • Continued government liaison and consultation to facilitate the approval of the IWUL and amended EMP • Continue Surface Rights acquisition discussions • Continued discussions with financial institutions for funding	• Continue interaction with Eskom to finalise Eskom CSA • Constant government liaison and consultation to facilitate approval of IWUL and amended EMP • Conclude Surface Rights acquisition • Finalise funding requirements
Braakfontein	• Conclusion of BFS • MPRDA, NEMA and NWA regulatory submission and approvals • Negotiation of Richards Bay and/or other port allocation • Negotiation of Eskom CSA for middling product	• Additional in-fill drilling at the new proposed adit position • Samples with Eskom to conduct combustion tests to determine the combustibility of the coal for potential Majuba up-take • Conclusion of BFS • Initiate MPRDA, NEMA and NWA regulatory submission and approvals under the "One Environmental System" once the peer review of the BFS is concluded • Negotiation of Richards Bay and/or other port allocation

Strategy scorecard continued

Strategic objective	Progress in FY16	Focus in FY17
Optimising our resources and driving continuous improvement (continued)		
Balgray	• Conclusion of Mining Right application process and awarding of Mining Right • NEMA and NWA regulatory approvals • Commencement of confirmatory and in-fill drilling • Feasibility study for a standalone operation • Mining permit granted for the remining of the historic discard dump	• Conclude disposal of LME
Koudelager	• Integration of new Prospecting Right into current geological model • Design of exploration programme, drilling and upgrade of Coal Resource on new Prospecting Right	• Conclude disposal of LME
Sterkfontein	• Call option granted to Moneybox Investments 156 Proprietary Limited to acquire the Sterkfontein Project as fully set out in note 32 (i) to the financial statements	• Moneybox completion of the Underground Coal Gasification Feasibility Study and exercise, or not, of the call option
Mooiklip	• Determine whether the Coal Resource will justify a further phase of drilling with a view to conclude the acquisition of Mooiklip	• Conclude disposal of Amalahle Exploration Proprietary Limited • Approval of the Prospecting Right renewal
Bankfontein	• Opportunity to consolidate Bankfontein and the broader Roodepoort farm into a single exploration tenement with critical mass being pursued	• Approval of the Prospecting Right renewal • Exploration programme to be concluded during Q3 FY17
Roodepoort	• Possible JV and/or consolidation opportunities are being pursued to add value to the existing Coal Resource	• Renewal of the Prospecting Right underway • Exploration programme to be concluded during Q3 FY17
Responsible and effective management of capital		
Cost containment	• Improved underutilisation of plant capacity at Vanggatfontein • Limit supplier increases to that which we are able to negotiate with customers	• Build cash reserves for the development of projects by reducing overheads, optimising operations and growing revenue • The group will implement measures to streamline the group structure thereby reducing costs and improving tax efficiency
Creation of new revenue streams	• Commissioned filter press plant at Vanggatfontein • Expanded filter cake markets	• Increase filter press throughput at Vanggatfontein • Expand and sustain filter cake markets • First trade deal has been concluded with additional contracts on the horizon for the coming year

Strategic objective	Progress in FY16	Focus in FY17
Responsible and effective management of capital (continued)		
Risk management	• Risk workshops • Managed and maintained customer relationships and satisfaction levels • Continuous interaction with all stakeholders, including regulators and committees, ensuring compliance and the management of expectations • Finalisation of risk registers and updating of mitigating controls • Elimination/mitigation of identified risks • Implement and audit controls	• Conclude risk workshops, updating of risk registers and mitigating controls • Audit of implemented controls • Continue managing stakeholder relationships and expectations • Mitigate adverse market conditions by exploring diversification opportunities into new markets, ie A-grade market
Safeguarding our assets	• Continuous updating of our risk registers and mitigation controls with new risks identified • Continuous monitoring of the effectiveness of our preventive and detection controls • Build on a culture of zero tolerance	• Continuous updating of our risk registers and mitigation controls with new risks identified • Continuous monitoring of the effectiveness of our preventive and detection controls • Build on the culture of zero tolerance
Ownership	• Concluded Phase 1 of our goal of achieving 51% BEE by flipping up minorities on subsidiary level	• Pursue and implement identified opportunities to achieve 51% BEE status for the group
Create a safe, enabling environment for our employees		
Safety	• New SHE management systems developed and implemented • Continuous monitoring through audits and application of disciplinary codes	• Employee involvement created through the SLAM – Stop, Look, Assess, Manage system • Induction programme finalised and implemented • Continuous monitoring of revised systems and controls • Recognition of safety and health achievements
Human resources	• Conducted human resource compliance audits on all companies and contractors • Invested R7.8 million in skills development programmes	• Continuous review of policies to ensure legal compliance • Continued focus to improve employment equity to drive transformation • Optimise collaboration with the MQA to facilitate access to skills development funding grants

Strategy scorecard continued

Strategic objective	Progress in FY16	Focus in FY17
Create a safe, enabling environment for our employees (continued)		
Reduce our environmental impact	• Continuing implementation of our concurrent rehabilitation plans • Implementation at Vaalkrantz of our proposed water management strategy once accepted and approved by DWS • Optimise the usage of the filter press plant at Vanggatfontein to reduce environmental footprint • Ongoing tracking of Vaalkrantz and Moabsvelden environmental authorisation permitting issues and close-out thereof	• Implementation of concurrent rehabilitation plans and alignment with recent financial provision regulations promulgated • Pursue approval of the proposed water management strategy for Vaalkrantz, to be implemented in a phased approach, following DWS approval • Optimise the usage of the filter press plant at Vanggatfontein to ensure execution of strategies to reduce environmental footprint • Ongoing tracking of Moabsvelden environmental authorisation issues and close-out thereof • Optimise the available disposal capacity at Vanggatfontein by investigating alternatives to alleviate pressure on current capacity • Initiate specialist studies to support the backfilling of discard into opencast pits and apply for the necessary environmental authorisations • Apply for environmental authorisations for a further phase of the co-disposal facility
Compliance	• Maintaining compliance with applicable legislation at all operations and development projects • Pursuing status of submitted applications for IWUL for Vaalkrantz and Moabsvelden • Process in place where certain individuals have been allocated the responsibility of ensuring compliance with legislation, providing quarterly feedback to the Compliance Officer • Subsequent to an external review performed by Hogan Lovells, recommendations made have been addressed	• Maintaining compliance with applicable legislation at all operations and development projects • All legal appointments at Vanggatfontein reviewed and updated • Pursue approval of submitted IWUL application for Moabsvelden • Possible review on recommendations addressed
Meeting our social and labour responsibilities	• Monitor progress in the implementation of both social and labour plan commitments, and compliance with the applicable elements of the Mining Charter Scorecard, and ensure regular feedback • Revitalise future forum structures and improve functionality • Negotiated a draft MOA with the Mpumalanga Department of Agriculture, Land Affairs and Rural Development to set up a PPP for the implementation of future agriculture-related local economic development projects • Donation of a stand in Delmas by the Victor Khanye Local Municipality for the construction of the Community Skills Development Centre • Reached an "in-principle" agreement with Canyoncoal and Samquartz for a joint venture in the construction of the Skills Development Centre • Roll out implementation of eco-furniture factory as part of the Vaalkrantz SLP delayed	• Identify infrastructure projects at Vanggatfontein • Continue engagement with the Victor Khanye Local Municipality for the establishment of a stakeholder engagement structure that is recognised and accepted by all parties so as to minimise the disruption of operations by disgruntled members of the community • Identify and implement school and learner assistance programmes in Delmas • Negotiate and sign MOA with the Mpumalanga Department of Higher Education for the management and staffing of the Community Skills Development Centre once completed

How we create value

Our vision

To grow a safe and sustainable coal mining business that serves the best interests of all our stakeholders.

Our business is built on a cost-efficient, target-driven, outsourced mining model. We operate on a "lean and mean" basis, with a small head office team supporting our decentralised mine management with specialist disciplines and administration. This management structure means we are adept at quick and effective decision-making. We focus on realising group-wide synergies wherever possible to enhance our efficiency and ensure our cost base is reduced.

Inputs

Financial

- Ratio targeted debt/equity funding
- Debt funding aimed at reducing the group's cost of capital
- Cash flows from operations
- Capital investment to support production and sustainability

Human

- Productive and skilled workforce
- Effective and ethical leadership
- Skills development
- Market related remuneration
- Target orientated incentive schemes
- Hands-on executive team

Manufactured

- Operating collieries and mine infrastructure
- Innovative technology to increase revenue growth
- Outsourced target driven production model

Intellectual

- Support networks and systems
- Governance structures and compliance measurement
- Reputation and brand management
- Risk management and rigorous controls

Social

- Transformation
- Promotion of women in mining
- Learnerships and bursaries
- Effective stakeholder management
- Zero harm culture

Natural

- Coal Resources and Reserves
- Land
- Water
- Energy

What we do

Ongoing exploration activities both at mining operations and projects

Find

Ongoing development of projects to create flexibility and optionality

Mine

Responsible opencast and underground mining practices

Coal processing and value add

Secure

Optimisation projects and refinement of business processes

Distribute

Marketing and distribution of our products

Sell

Financial management

Our values

Safety, responsibility, authenticity, respect, delivery, accountability, relationships and team work.

Outputs

Products

Metallurgical coal

Domestic thermal coal

Eskom thermal coal

Coal fines and discard products

Services

Processing capacity

Trading

Waste

Waste water

Coarse discard

Fine coal slurry

Emissions

Outcomes

Financial

- Fund growth of the business, both through developing projects and through acquisitions
- Sustainability
- Stakeholder value

Human

- Skills development
- Job creation
- Create a value adding culture
- Thought-leadership

Manufactured

- Saleable product

Intellectual

- Improved methods for developing and operating mines
- Efficiency mindset

Social

- Transformation
- Skills development
- Investment in community infrastructure
- Social upliftment

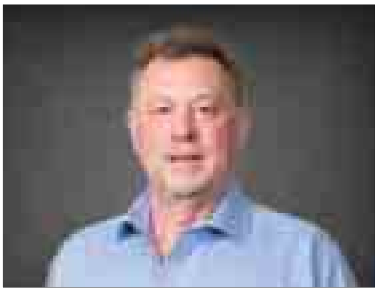
Natural

- Power
- Contained depletion of resources
- Controlled environmental impact

Leadership review

Leadership review

Keaton is a refocused company with a single, profitable colliery with a pending attractive expansion project, a simplified corporate structure and an appetite to succeed.



David Salter
Non-Executive Chairman

Mandi Glad
CEO

Jacques Rossouw
CFO

Dear shareholder,

The 2016 financial year, like 2015, provided mixed results, difficult conditions and regulatory uncertainty.

There was continued excellent performance at one asset, Vanggatfontein, and a disappointing performance at the other, Vaalkrantz. However, we concluded the disposal of Vaalkrantz and our other KwaZulu-Natal anthracite assets during February 2016, which awaits only the Minister's consent under section 11 of the MPRDA. This together with our acquisition of the minority interests in all but one subsidiary streamlined our company and simplified our operating model. In addition, subsequent to year-end, the long-standing dispute with Megacube Mining Proprietary Limited relating to several breaches of their contract mining agreement at Vanggatfontein was resolved in our favour at arbitration.

Safety

Zero harm remains a key focus for the group and safety is of paramount importance. The lost-time injury frequency rate (per 200 000 hours worked) was 0.14 at Vanggatfontein (FY15: 0.10) and 0.06 at Vaalkrantz (FY15: 0.22). Management commends all for this achievement and their adherence to safety standards and protocols.

Operational overview

Our two collieries, Vanggatfontein and Vaalkrantz, produce a range of coals. Vanggatfontein produces thermal coal for Eskom and 5 seam coal for the metallurgical industry. Vaalkrantz produces anthracite which is exported to Brazil via off-take partner Glencore together with a range of anthracites for the local market.

Vanggatfontein

Our prime asset continued to perform superbly. Vanggatfontein sold 2 237 595t of washed 2 and 4 seam thermal coal to Eskom, only 2% down on last year's record sales of 2 278 761t. Sales of 5-seam metallurgical coal were 98 252t (FY15: 126 107t) in line with the geological model. Discard, slurry and B-grade sales were negligible.

Vaalkrantz

The Vaalkrantz operation was classified as being "held-for-sale" during the year and a sale process was initiated. This closed in February 2016 when BER acquired our wholly owned subsidiaries LME and Amalahle Exploration Proprietary Limited. Keaton thereby exited the anthracite market entirely. Importantly, the Braakfontein thermal coal project, held by LBC, a wholly owned subsidiary of LME, was specifically excluded from the transaction. LBC is in the process of being unbundled from LME and becoming a direct wholly owned subsidiary of Keaton.

Post-year-end, Vaalkrantz Colliery was placed on care and maintenance notwithstanding continuous efforts by both LME and BER to minimise the losses exacerbated by the ongoing global decline in coal prices, *force majeure* declared on LME by its biggest customer and the unavailability of water due to the continued drought in the region. LME and BER's associated operating company Witbank Mineral Resources Proprietary Limited jointly decided to place Vaalkrantz Colliery on care and maintenance with effect from 1 May 2016. LME embarked on a section 189A process for the retrenchment of all employees during April 2016 which was finalised and became effective on 31 May 2016. Coal sales for the year were 45 556t domestic (FY15: 142 176t), 70 600t export (FY15:138 300t) and 185 799t high ash (FY15: 114 974t).

Projects

Moabsvelden remains our short-term growth priority. This will be a satellite pit at our successful Vanggatfontein Colliery. Full project release awaits the grant of its IWUL and the conclusion of a Coal Supply Agreement with Eskom. However, we continue to evaluate our production options should we be unable to reach agreement with Eskom. In addition, with the regulatory uncertainty introduced by the new NEMA legislation, the new draft Mining Charter and varying interpretations of BEE ownership requirements, no capital commitment will be made without clarity on the key aspects.

Group financial performance

FY16 can be summarised as a year of clean-up. The group concluded the sale of loss making LME, took an impairment of R159.2 million on its Braakfontein thermal coal project as a result of continued depressed export coal prices, reversed a R42.5 million liability as a result of a favourable ruling in the arbitration matter with Megacube and concluded the flip-up of its BEE minority shareholders from subsidiary level to the listed entity. This clean-up has now positioned the group to exclusively focus on its highly cash generative operation Vanggatfontein and its value accretive project Moabsvelden. The Braakfontein thermal coal project was excluded from the LME sale and will realise future value for the group once we have concluded an option analysis regarding the future of this project.

Operations generated net cash of R470.2 million in FY16 compared to R536.9 million in FY15 after taking net finance cost of R19.4 million (FY15: R18.4 million) into account. The decrease in operational cash was mainly as a result of losses incurred at LME, specifically Vaalkrantz colliery.

Pleasingly Vanggatfontein continued its steady performance and realised EBITDA of R620.2 million compared to the R626.9 million the year before. Cash generated from this operation was utilised for debt repayments of R102.6 million, largely to financiers Investec Bank. Net debt levels of the group however increased from R288.6 million in FY15 to R342.4 million in FY16, mainly as a result of the recognition of the Gunvor SA financial liability of R65.3 million (discussed in more detail under the financial performance and value creation section of this IAR), further drawdowns on the Investec debt facility of R20 million and a decrease in cash balances from R72.5 million in FY15 to R48.9 million in FY16. The drawdown on debt facilities and decrease in cash balances were a result of funding loss making LME.

The net debt to equity ratio deteriorated from 34% in FY15 to 69% in FY16 as a result of the losses from discontinued operations (LME) of R128.8 million, the impairment charges on Braakfontein, the increase in net debt levels discussed above as well as the flip-up of the minorities to the listed entity. The flip-up resulted in a net decrease of R49.6 million in equity. More detail regarding the flip-up is disclosed in note 23 to the financial statements.

Strategic priorities overview

Return to growth

- Optimising our resources and driving continuous improvement
- Responsible and effective management of capital
- Creating a safe, enabling environment for our employees
- Mining responsibly
- Risk management
- Compliance
- Meeting our social and labour responsibilities

Responsible and effective management of capital

- Cost containment
- Creation of new revenue streams
- Risk management
- Safeguarding our assets

Creating a safe, enabling environment for our employees

- Conducted independent audit of human resource policies
- Continuous review of policies to ensure legal compliance
- Identified critical path positions to drive succession planning and using innovative recruitment initiatives, improve employment equity to drive transformation
- Market-related remuneration

Leadership review continued

Cash invested in investing activities decreased from R508.9 million in FY15 to R404.4 million in FY16. This decrease mainly related to the year-on-year decrease in capital spend at Vanggatfontein of R39.8 million and R10.9 million at the Vaalkrantz operation.

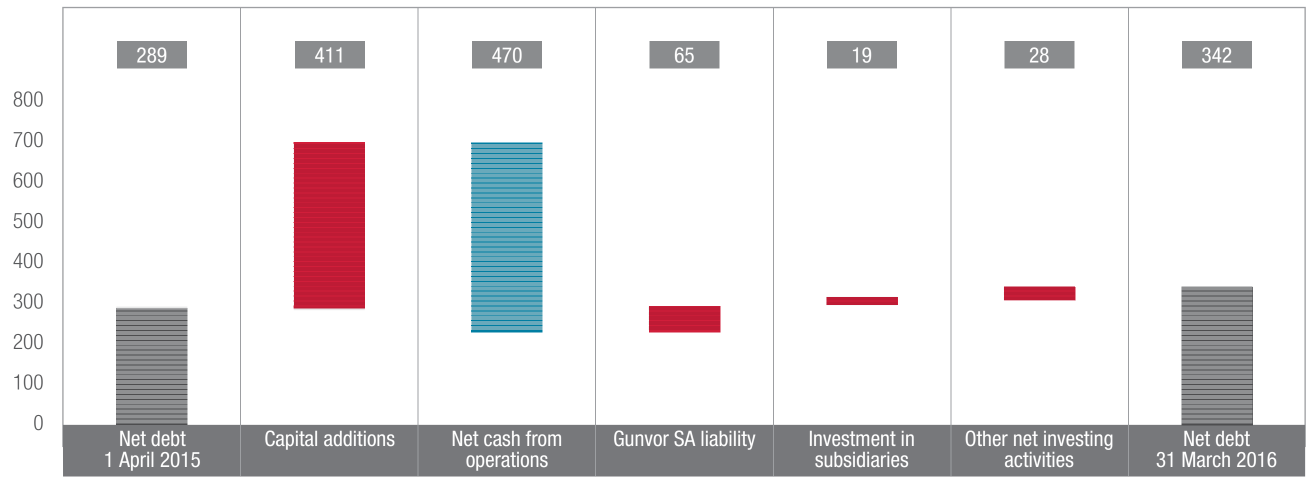
Group revenue from continuing operations decreased by 13% from R1 181.1 million in FY15 to R1 032.1 million in FY16. The decrease was mainly as a result of transport revenue decreasing 36% as a result of shorter delivery distances to power stations. This however also resulted in a decrease of 36% in transport costs.

Overall coal sales at Vanggatfontein decreased 4% year-on-year resulting in a decrease in revenue of R35.8 million. The operation delivered 2.24Mt of washed 2 and 4 seam thermal coal to Eskom, a decrease of 2% from the 2.28Mt delivered in FY15. Sales of 5 seam metallurgical coal decreased 22% from 0.13Mt to 0.10Mt in line with the geological model. Five seam sales prices per tonne decreased by 7% year-on-year as a result of a decrease in commodity prices worldwide.

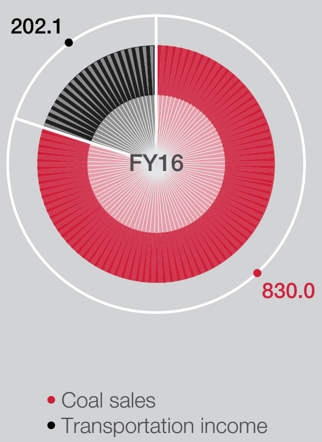
Cash cost at Vanggatfontein decreased 13% year-on-year as a result of the decrease in transport costs, a 7% reduction in waste volumes mined with a consequential decrease in the strip ratio from 2.9 in FY15 to 2.8 in FY16 and a R33.2 million decrease in fuel costs.

The gross profit of R163.3 million or 16% of revenue from continuing operations decreased year-on-year mainly as a result of the decrease in sales at Vanggatfontein and also due to management's decision in the second half of the financial year to accelerate mining of Pit 2 in order to minimise rehandling of future life-of-mine overburden and consequently reduce future cash outflow. Unfortunately, coal qualities and planned yield in the last remaining cuts decreased significantly to that experienced previously in Pit 2. This not only resulted in a decrease in the expected cash generated from these last

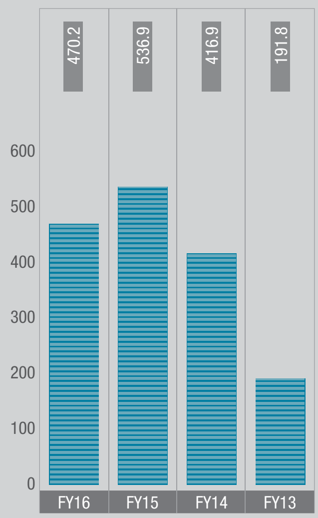
Group net debt (Rm)



Revenue
(Rm)



Cash generated from operations
(Rm)



cuts, but also resulted in accelerated depreciation.

Headline earnings per share decreased from 0.4 cents per share in FY15 to a loss of 26.9 cents per share in FY16. The main reasons for this decrease were as a result of the recognition of the abnormal items discussed above, which included the loss on recognition of the Gunvor financial liability and the once-off credit on the reversal of the Megacube liability. In addition, the weighted average number of shares in issue for the year increased by 26.9 million shares following the flip-up of the BEE minorities.

A more detailed analysis of the group's financial performance is set out on pages 64 to 69 and 94 to 187.

Governance

Keaton Energy applies the corporate governance requirements of the latest Companies Act and the King III regulations instituted by the JSE. In addition, we also adopted the JSE's recommendation to publish integrated and sustainability reports annually in line with the international IIRC and GRI reporting standards. As we state year after year, these annual reporting and assurance requirements continue to demand excessive management time, cost and effort, which is absolutely ludicrous for a company of our size. It was hoped that the King IV draft regulations would have had a more realistic, useful and business-focused flavour and not just a vehicle to provide continued billable hours for auditors and consultants. Sadly, we were disappointed again. It is difficult to demonstrate value in remaining a listed company.

We have, for many years, believed that aside from the regulators, only a handful of people read our annual reports. It continues to be a sore point among the Keaton leadership that so much effort and cost is expended on their production.

Directorate

Gunvor SA, the group's largest shareholder, changed its nominated directors during the year. Jeroen Schurink resigned with effect from 30 June 2015 and Mr Hoang Gia Mai, Gunvor SA's Chief Investment Officer, was appointed as a non-executive director effective 1 July 2015. The Board thanks Mr Schurink for his contribution to the company.

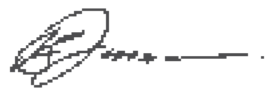
The Social and Ethics Committee was re-constituted as a five person committee during the year under the leadership of Ms AP Sedibe and continues to provide the Board with excellent oversight of this challenging area of our business.

Outlook

Last year we said that we look forward to a better year. We repeat that sentiment. Keaton is a refocused company with a single, profitable colliery with a pending attractive expansion project, a simplified corporate structure and an appetite to succeed.

David Salter
Non-Executive Chairman

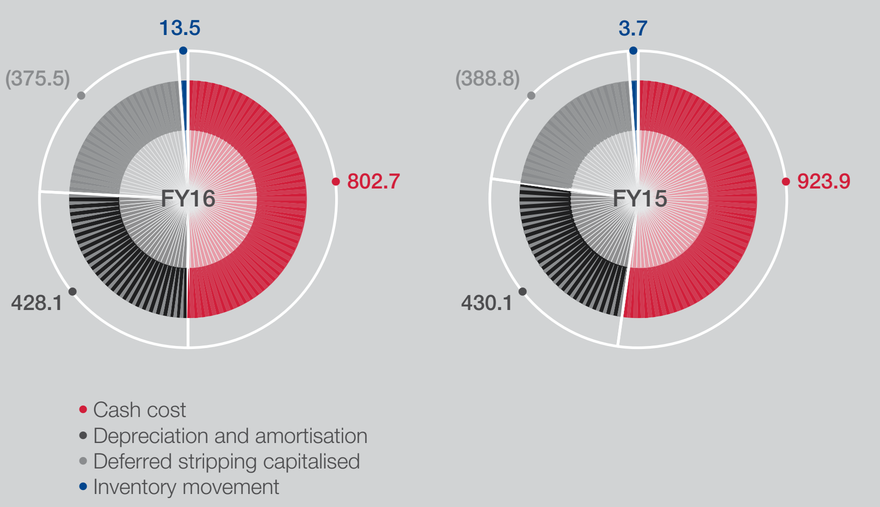
Mandi Glad
CEO



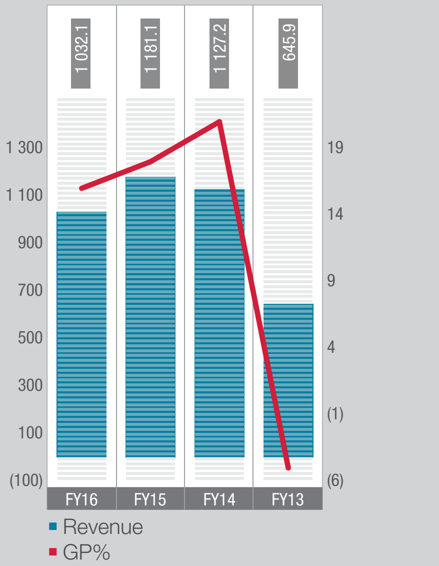
Jacques Rossouw
CFO

30 August 2016

Cost of sales (Rm)



Revenue and gross profit (Rm)



Operational review

Safety and health

Our approach

The priority of keeping our people safe

Our target is zero fatalities, zero injuries and zero harm.

Our people have the right to work in a safe and healthy environment, thus Keaton Energy is committed to conducting operations within the spirit and detail of the MHSA and the OHSA.

The Board monitors Keaton Energy's safety and health performance through the SHE Committee, which meets at least quarterly. This Committee is chaired by Dr David Salter and its members include Gerard Kemp and Mandi Glad.

Responsibility for health and safety is driven from the top down and is viewed to be everyone's responsibility. On site, the SHE Manager, Mine Manager and all employees are responsible for health and safety.

Management of safety and health

Formal health and safety committees are in place at all operations. These committees meet regularly to discuss pertinent safety issues and risks observed during the previous shift, day, week and month. This ensures operational teams effectively communicate any safety issues and risks as well as providing ongoing assessment of our safety performance. Every incident and accident is investigated by the SHE and Mine Managers at mine level. The findings of these investigations are reported to the group EXCO, the SHE Committee, the Board and to the DMR as specified in the MHSA.

Each mine tracks its respective adherence to standards and legislation, and progress to zero harm, through self-assessments and head office and external audits. Key progress milestones include visible felt leadership, which we consider to be a key driver of safety excellence, effective HIRAs and PTOs specifically focused on the elimination of repeat incidents.

We have also developed and implemented a COP for each site drawn up in accordance with the DMR 16/3/2/1-A5 guideline issued by the Chief Inspector of Mines, detailing how to identify, prepare for and respond to all emergency situations affecting employees and surrounding communities, for instance fire, flood and bomb threats. Our operations have drawn up and implemented all the mandatory COPs as required and listed by the DMR. These COPs are revised and updated every two years or as required by the MHSA.

Our entire workforce is represented in formal joint management-worker forums.

Safety performance

	Vanggatfontein		Vaalkrantz	
	FY16	FY15	**FY16**	FY15
Fatality-free man hours	**7 143 666**	5 673 673	**1 433 947**	286 893
Fatality-free shifts	**4 623 065**	3 563 978	**203 207**	31 034
Lost-time injuries	**1**	3	**2**	2
LTIFR per 200 000 man hours worked	**0.14**	0.10	**0.06**	0.22
Medicals conducted	**2 000**	1 982	**1 495**	524
Cases of occupational health disease	**–**	–	**5**	2

Vanggatfontein

The safety focus during the year at Vanggatfontein was to build on the foundations of the previous year's task team outputs:

- the implementation of a safety communication strategy;
- consistent disciplinary codes applied equally across all levels;
- self-assessments conducted by business units;
- implementation of revised HIRA standards;
- continued consistent visible felt leadership;
- ongoing benchmarking and sourcing of best practices.

Vaalkrantz

Continued safety improvements including visible felt leadership walks, the implementation of the safety system and greater employee involvement. In addition, the new safety mantra of SLAM – Stop Look Assess and Manage – was launched.

The existing safety system was audited, the results of which prompted a full review of the contractor packs with a specific focus on safety policies and legal compliance. All safety findings are now logged on a safety management system for continuous monitoring and improvement.

Safety and health continued

Health performance

Maintaining a healthy workforce promotes productivity and reduces health risks. An effective health management system is therefore a priority.

Occupational Medical Surveillance Programme

Medical surveillance is a legal requirement of the MHSA and OHSA and conducted on all our operations as identified and specified in the applicable mandatory COP based on the DMR guideline, DMR 16/3/2/3-A1 Minimum Standards of Fitness to Perform Work at a Mine. It is used to identify trends in health deterioration potentially as a result of occupations or work environments including individual health issues. The information gathered plays an important role in mitigating risks. At Keaton Energy, surveillance is currently outsourced to third parties. At financial year-end our occupational healthcare service providers were Ganala Kriel Occupation Health and Wellness Centre at Vanggatfontein and Occu-sure at Vaalkrantz. Our occupational health clinics and medical surveillance programmes receive consistently positive ratings during regular DMR audits.

All mine employees, both permanent and contract, undergo a medical examination when they join the group and periodically during their service at Keaton Energy. Key occupational health indicators are then continually monitored through regular wellness checks. On leaving the group, all employees undergo an exit medical.

We further provide regular health briefings, which encourage employees to be vigilant about conditions that could affect their own or their colleagues' safety and health. We provide information on the implications of exposure to various workplace risks and educate employees on measures to maintain good health. All members of the workforce are encouraged to test for chronic diseases and those on chronic medications are frequently reminded to take their prescribed medication. The occupational clinics provide both a hypertension and diabetes awareness programme.

Noise induced hearing loss and occupational lung diseases are prevented through technical engineering programmes aimed at suppressing noise and dust in the workplace, the provision of protective equipment and ongoing employee education and involvement.

Employees diagnosed with TB are managed according to the national health guidelines and may continue to work in their normal positions once they are non-infectious. If diagnosed with a TB infection, the employee is required to remain off duty for two weeks and is removed from underground work until the Occupational Medical Practitioner deems him/her fit for duty following a further diagnostic X-ray. Treatment is administered by local clinics and the DOTS strategy is implemented. TB affected employees also receive nutritional support. All TB cases are investigated in terms of section 11.5 of the MHSA.

Our HIV/Aids management strategy is in line with national DMR and Department of Health guidelines as well as current best practice. A voluntary counselling and testing programme is in place at Vanggatfontein. The occupational health clinics on the mines offer pre-HIV and post-HIV test counselling, ongoing HIV counselling and monitoring of CD4 counts and viral loads on a monthly basis. HIV-positive employees are referred to local clinics for monthly anti-retroviral medication. HIV-positive employees also receive treatment for opportunistic infections and immunisations (flu vaccinations) as well as nutritional support. Employees are encouraged to disclose their status to their partners.

Primary healthcare

Due to the remote location of Vaalkrantz and as part of our community social investment, the mine's clinic provides primary healthcare services to all employees and contractors working on the mine.

Occupational Health Programme

Both Vaalkrantz and Vanggatfontein employ occupational hygienists.

Occupational health exposure risk assessments are conducted and a health risk register developed for occupational exposures on an annual basis. Monitoring is conducted by the appointed occupational hygienists.

The required mandatory COPs were reviewed during the year. These mandatory COPs are revised every two years and are updated accordingly.

Occupational hygiene sampling, testing and monitoring is performed on a frequency as identified and specified in the health register, with quarterly, six monthly and annual reports submitted to the DMR in accordance with the MHSA.

We further provide regular health briefings with various related topics being discussed at weekly toolbox talks.

Environment

We operate in an industry that has a significant impact on the environment. Environmental management is a critical part of the day-to-day management processes at Keaton Energy. A review of the group's environmental policy has been completed and an integrated environmental strategy has been developed for review. Our primary focus at this stage is to ensure that we are fully compliant with all applicable legislation and associated regulations, including but not limited to the NEMA, MPRDA and NWA.

We undertake ongoing and extensive consultation with all stakeholders, especially landowners and occupiers of affected land, and any party that may register itself as an interested/affected party as per legislation and associated regulations.

Our group Environmental Manager is responsible for managing and reporting on the group's environmental performance, impacts and mitigation, as well as ensuring that all our operations and development projects are legally compliant with all applicable environmental legislation and associated regulations. This is driven through the functional reporting structure where the group Environmental Manager reports to the Chief Operating Officer, the role currently being fulfilled by Keaton Energy's CEO. The SHE Manager at each mine, in turn, reports to the respective Mine Managers who report to the CEO.

We manage our daily environmental footprint with the implementation of the mandatory EMPs at the collieries. Vanggatfontein, Moabsvelden and Vaalkrantz have approved EMPs in place. These EMPs focus on:

- responsible mining
- monitored water usage
- reducing emissions
- reducing spillages
- recycling; and
- rehabilitation.

We have indicated our eagerness to address and rectify any possible historical incidents of non-compliance and have demonstrated our proactive approach to responsible environmental management by ensuring that our assets are operated in accordance with the principles of duty of care and are environmentally compliant. No environmental fines were received for the year under review.

Environmental expenditure for measuring, monitoring and mitigating risks and impacts represents a sizeable proportion of our operations' operating and capital budgets.

Environmental expenditure	FY16 R	FY15 R
Pollution control and prevention	**3 130 107**	2 629 356
Rehabilitation expenditure*	**43 512**	3 109 717
Environmental operational expenditure including development project studies	**25 014 192**	20 850 064
Total	**28 187 811**	26 589 137

** This excludes the cost associated with ongoing back filling of voids.*

At year-end, the total mine closure and environmental rehabilitation provision for the group amounted to R298.1 million (FY15: R270.1 million).

Klip Colliery case study

In September 2008, we received a mining permit to commence opencast mining on a small area on the farm Klipfontein, near the town of Ogies in Mpumalanga. Mining commenced at Klip Colliery and all available coal was mined using opencast methods. Rehabilitation work at Klip Colliery started in 2010 with backfilling of the opencast void and returning previously stockpiled topsoil to the new ground level. This included the implementation of an erosion control plan and the construction of erosion management berms to prevent further erosion and degradation.

The drought of the 2015/16 growing season has necessitated us to not do any further earthmoving or vegetation establishment at this site. Bare patches and subsided areas that were addressed in the latter part of the 2014/2015 growing season only started to show some recovery in late March 2016 (figure 1). The previously completed brushpacking proved to be very effective (figure 2). Only the control of Category 1 declared weeds was done during the 2015/16 growing season. Some areas of subsidence have been noted in the year under review and this will be addressed in the 2016/17 growing season.

Figure 1

Figure 2

Environment continued

Water

Vanggatfontein Colliery had its IWUL issued by the DWS in January 2015. The colliery endeavours to be self-sufficient in terms of water supply and usage. Water from the opencast pits is pumped to the plant PCD which supplies the coal handling and processing plants, before being recycled via slurry dams back to the PCD for reuse in the plant. Clean water for the operation of the flocculent plant is sourced from on-site boreholes. The water management system is designed to separate clean and dirty water, and to optimise the recycling and reuse of dirty water.

The IWBSM developed in 2012 assists in defining and driving water management strategies and aids in the decision-making process by simulating and evaluating various water management strategies before implementation. The IWBSM is updated annually, and in compliance with our IWUL, in order to achieve effective and efficient utilisation of our water resources based on reducing our water demand, reusing our process water and preventing any discharges to the environment. We developed a static water balance and a baseline dynamic model with most of the associated flow information available. This played a role in our decision to construct the filter press plant at Vanggatfontein, with the benefit of a meaningful improvement in raw water utilisation.

The prolonged lower-than-normal rainfall received in the year under review and the resultant drought conditions experienced regionally, has impacted the availability of water in surface impoundments at our Vanggatfontein operations. This has forced us to be more reliant on groundwater and thus increased our water consumption during the year.

At Vaalkrantz, water is sourced from three earthwall dams constructed within the mine's footprint, which are fed by surface water run-off, as well as three separate springs above the Enyati and West Block adits. In addition, the adjacent PCD collects supernatant water from the Number 2 Mine Residue Dump and returns this water to the coal handling and processing plant, the primary source of recycled water at the mine. Groundwater that seeps into the underground workings during mining is stored in low-lying underground areas and pumped either to underground mining equipment that rely on a constant water supply for operation and maintenance or to the surface as part of safe mining practices.

Due to the current drought conditions occurring regionally in KZN, operations at Vaalkrantz were placed on care and maintenance post-year-end. Once operations resume when climate and financial conditions improve, the colliery will actively investigate various options to maximise the reuse and recycling of all available water on site.

Rainwater is accounted for in the total water reused on the sites. Neither mine uses water purchased or supplied by the municipalities.

Water withdrawal by source (m³)

	Vanggatfontein		Vaalkrantz	
Water source	**FY16**	FY15	**FY16**	FY15
Groundwater	**606 048**	506 283	**87 409**	98 100
Surface water	**–**	n/a*	**129 553**	146 498
Total water used for primary activity	**606 048**	**506 283**	**216 962**	**244 598**

** Surface water is not abstracted for use at Vanggatfontein – only groundwater from boreholes is used as a source of water.*

At both Vanggatfontein and Vaalkrantz, water consumption is monitored by strategically placed water meters where both losses and inefficient water uses can be identified and remedied.

Materials

Measuring explosives used is important, as explosives contribute to Keaton Energy's GHG emissions. The following materials were consumed at our collieries during the year:

	Vanggatfontein		Vaalkrantz	
Consumed materials	**FY16**	FY15	**FY16**	FY15
ANFO explosives (tonnes)	**6 257**	6 437	**112**	172

Energy

Monitoring energy consumption determines Keaton Energy's scope 1 and 2 GHG emissions. We have been measuring and reporting our energy consumption and related emissions since 2012. The following sources of energy were consumed at our collieries during the year:

	Vanggatfontein		Vaalkrantz	
Energy source	**FY16**	FY15	**FY16**	FY15
Diesel energy (GJ)	**420 229**	470 995	**43 535**	68 976
Petrol energy (GJ)	**–**	–	**21**	34
Electrical energy (GJ)	**39 132**	42 338	**26 039**	33 184

The following factors were applied to convert the consumption of energy sources to energy statistics: diesel 39.6GJ/tonne; petrol 32.4GJ/tonne; and electricity 0.0036GJ/kWh.

Energy intensity

Using the energy figures below and the total sales volumes for each mine, it is possible to determine the energy intensity of each colliery – an indication of the cost of energy required to produce each tonne of saleable product – as well as efficiency trends.

	Vanggatfontein		Vaalkrantz	
	FY16	FY15	**FY16**	FY15
Total energy (GJ)	**459 361**	513 333	**69 596**	102 194
Energy intensity (GJ/ saleable tonne)	**0.194**	0.209	**0.230**	0.258

Emissions

Our risk management processes require that we take cognisance of both the risks and opportunities that relate to current views on climate change and consider these as part of the company's ongoing strategy development. Growing concern regarding the potential impacts of anthropogenic climate change and the South African government's plans to introduce a carbon tax mean that managing our emissions is and will increasingly become more material to the way we run our business.

In order to control Keaton Energy's GHG emissions, we carefully budget fuel consumption for our mining and logistics operations to ensure that they are operated and maintained to maximise fuel efficiency.

Using the World Business Council for Sustainable Development/ World Resources Institute (WBCSD/WRI) Greenhouse Gas Protocol, we provide data on scopes 1 and 2 for our two collieries. Emissions related to head office activities in Johannesburg are not reported due to their insignificance. Scope 1 and 2 emissions have been determined by applying published emissions factors to direct energy measurements taken at the respective sites.

	Vanggatfontein		Vaalkrantz	
	FY16	FY15	**FY16**	FY15
Scope 1 (tCO_2e)	**29 372**	32 822	**2 953**	4 649
Scope 2 (tCO_2e)	**10 761**	11 643	**7 161**	9 126
Total (tCO_2e)	**40 133**	**44 465**	**10 114**	**13 775**

Note: The above emissions exclude any estimate of the global warming potential arising from the release of methane from coal mining operations.

The following factors were applied to convert the consumption of energy sources to GHG emissions statistics: diesel 0.00267ℓ/ tCO_2e; petrol 0.00231ℓ/tCO_2e; and electricity 0.99kWh/tCO_2e.

Our coal is trucked to rail sidings, end-users or ports by outsourced independent contractors. Based on operational data collected, it is estimated that the hauliers' vehicles used to deliver our product travelled about 11.6 million kilometres per annum. Using the 2015 DEFRA emissions factor for vehicles weighing more than 33 tonnes and operating at 50% average load, this activity produces approximately 6 314 tCO_2e (FY15: 10 983 tCO_2e), which is a significant decrease due to Eskom product being delivered to closer sidings and power stations in the period under review. We consider many other contributors to our other indirect GHG emissions (scope 3) to be immaterial and as such do not measure or report on this indicator.

GHG emissions intensity

Using the GHG emissions figures disclosed previously, together with the total sales volumes for each colliery, it is possible to determine the emission intensity of each mine.

	Vanggatfontein		Vaalkrantz	
	FY16	FY15	**FY16**	FY15
Emission intensity (tCO_2/saleable tonne)	**0.0170**	0.0181	**0.0335**	0.0348

Biodiversity

The total area of land disturbed by the company's mining operations is 425 hectares – 353 hectares at Vanggatfontein and 72 hectares at Vaalkrantz. Neither mine is within nor adjacent to protected areas or areas of high biodiversity. Biodiversity management plans are therefore not considered necessary.

At Vanggatfontein five bio-monitoring sites on the Wilge River and its tributaries are monitored during the wet and dry seasons. Blast vibration and noise monitoring are also conducted on a regular basis.

Particulate matter

Fugitive dust at the Vanggatfontein Colliery is monitored at various locations to ensure compliance with applicable legislation. A dust suppression spray system and a misting system reduce fugitive dust levels from the respective coal handling and processing plants. Dust generated on unpaved roads is suppressed using water bowsers to wet the roads. We are investigating alternate road building materials which can be treated with dust suppressant to further reduce the mine's dust generation. The application of a chemical dust suppressant on certain parts of our access road has been trialled and we have been closely monitoring the effectiveness thereof. We will continue investigating the application of this chemical suppressant on other sections of our access road in the next financial year.

Vanggatfontein has a weather station to assist in determining the sources of fugitive dust by correlating trend analysis with weather conditions. It also provides an early warning of large storms and high winds. There are 14 dust fallout buckets within two kilometres of the mine, from which samples are taken on a monthly basis. Most of the monitoring stations within the Mining Right area are in compliance with the South African National Standards industrial limit of 600mg/m² to 1 200mg/m² per day, except for monitoring stations in the vicinity of the plant and the mine entrance. Coal transport trucks are covered with tarpaulins after they are loaded with coal,

Environment continued

and dust buckets are strategically placed on the access road to measure the dust emissions. The impact of dust, vibration and noise at Vaalkrantz Colliery is limited as it is an underground mine.

Effluents and waste

Effluents

We regularly monitor the quality of both ground and surface water, although our collieries do not discharge any dirty water into the environment. At Vanggatfontein, we record the water levels of 25 boreholes on a monthly basis and test quality quarterly. Sixteen surface water sites are also sampled quarterly for quality. At Vaalkrantz, the surface and groundwater monitoring points are sampled on a monthly basis. In 2014, we submitted a water management strategy to DWS in support of our IWUL application for Vaalkrantz. We are awaiting DWS approval for implementation of the strategy in a phased approach over the next three years. We are optimistic that the proposed strategy will assist in the approval of our IWUL.

Waste

Our collieries generate consumable waste, processing waste and development waste. Recycling of consumable waste has been limited to scrap metal and used oils, but we are considering introducing recycling programmes to further reduce consumable waste and lower operating costs. Processing waste is produced during the beneficiation of coal. Processing plant fine coal discard, or slurry, has for many years been stored in purpose-built Tailings Storage Facilities (TSFs) or co-disposal facilities. At Vanggatfontein, the group has embarked on the sale of slurry and discard as by-products in their respective processes. Slurry is used in the brickmaking industry and discard is used for briquettes in the domestic heating and industrial boiler industries.

A filter press plant has been constructed at Vanggatfontein and was designed with the specific intention of increasing revenue from the colliery, reducing our environmental footprint and improving raw water utilisation. Fine coal and dense medium separation (DMS) discard is stockpiled on co-disposal facilities. The filter press plant will eliminate the slurry stream and the mine will no longer discard a carbonaceous wet stream from coal processing operations. This materially reduces the short-term risk of water decant liabilities. In the long term, we will substantially reduce the volume of fine discard and therefore the impact on surface and groundwater sources. In addition, we will be able to remine our historically deposited discards, further reducing our discard footprint and environmental liabilities.

Vaalkrantz has a significant quantity of mining discard which has built up over the years that must be vegetated and rehabilitated when the mine is closed. No overburden dumps are present at Vaalkrantz as the Coal Reserve is mined directly via adits. Limited overburden removed during adit establishment is utilised to establish adit platforms. Geochemical assessments were conducted at the discard dumps and adits. Results showed that there is potential for acid generation at the dump but that the dump is lined with dolerite which is believed to have zero to very low permeability.

During the year, no significant spills occurred which required reporting to the authorities.

Environmental complaints

Vanggatfontein maintains a formal environmental complaints register and incidents are reported through a formal incident reporting and investigation system. A complaint is defined as a critical observation or query about our environmental policy, management system or performance from interested and affected parties requesting a response or remedial action, or otherwise worthy of a response. Vaalkrantz received no complaints during the year. Vanggatfontein received two complaints for blasting and one for dust. All complaints were investigated and resolved.


06

Vanggatfontein Colliery

Key facts

Ownership

- Keaton Mining Proprietary Limited

Location

- 16km south-east of Delmas, Mpumalanga

Mining method

- Opencast truck and shovel

Permitting

- Mining Right expiring on 22 February 2030

Products produced

- Thermal coal for Eskom
- Metallurgical coal for domestic industrial consumers
- Filter cake

Infrastructure

- A 100tph 5 seam coal washing plant producing duff, peas and nuts for the domestic metallurgical industry
- A 500tph coal washing plant producing domestic thermal coal for Eskom
- A 60tph filter press plant
- Well-maintained tarred and gravel access roads
- Change houses, offices, workshops, laboratory and clinic
- Pollution control facilities, twin-lined co-disposal facilities with related dirty water management systems
- Bulk water and power reticulation, extensive road infrastructure, stockpile areas, weigh-bridge facilities and access roads

Property, plant and equipment value at 31 March 2016

- R665 million (FY15: R707.5 million)

LTIFR to 31 March 2016

- 0.14 (FY15: 0.10)

Employees at 31 March 2016

- 17 permanent, 517 contractors, 16 interns/graduates (FY15: 15 permanent, 478 contractors, 20 interns/graduates)

Community involvement

- Relocation of 19 families from Vanggatfontein Farm to newly built houses in Delmas. Title deeds to the new houses were handed over to the beneficiaries
- Eight unemployed youths from Delmas joined the apprenticeship programme at Keaton Mining
- Continued funding of 11 university students from the community through the Keaton Mining bursary scheme
- Continued funding of 10 work experience learners and nine graduate interns for on-the-job training

Salient features

Coal Reserve	Coal Resource (MTIS)	Life of mine	Washing capacity	Permitting
44.4Mt (FY15: 49.2Mt)	**113.7Mt** (FY15: 119.3Mt)	**20 years**	**600tph DMS** **60tph filter press**	**Mining Right**

Contribution to group performance	FY16	FY15	% change
Production			
Sales (Mt)	**2.4**	2.5	(4)
ROM (Mt)	**3.6**	3.7	(3)
Waste (Mm³)	**10.1**	10.7	(6)
Strip ratio achieved	**2.8**	2.9	(3)
Safety			
LTIFR	**0.14**	0.10	40
Fatality-free man hours	**7 143 666**	5 673 673	26
People			
Number of employees (including contractors)	**550**	513	7
Financial performance			
Revenue (Rm)	**1 032.1**	1 181.1	(13)
Gross profit (%)	**16**	18	(11)
EBITDA (Rm)	**620.2**	626.9	(1)
Depreciation/amortisation (Rm)	**(442.4)**	(423)	5
Operating profit (Rm)	**177.9**	203.8	(13)
Capex (Rm)	**400**	431	(7)

The Vanggatfontein operation comprises a contractor-operated opencast mine which delivers 5, 4 and 2 seam ROM coal to our two coal handling and processing plants – a 100tph 5 seam plant and a 500tph 2 and 4 seam plant. Both plants are owned by Keaton Mining but operated by a specialist contractor. The 2 and 4 seam products are trucked and/or railed to Eskom and the 5 seam products trucked to various domestic metallurgical customers.

Vanggatfontein reported a 0.14 LTIFR (FY15: 0.10). Zero harm remains a key focus for the group and safety is of paramount importance.

Vanggatfontein continued its excellent performance during the year while continuing to supply Eskom and 5 seam domestic metallurgical clients. The colliery delivered 2.2Mt washed 2 and 4 seam thermal coal to Eskom, a decrease of 2% on the previous year. Sales of 5 seam metallurgical coal was 0.1Mt in line with the geological model. Discard, slurry and B-grade sales were negligible. The filter press plant was commissioned in June 2015 and was completed on time and within budget. The filter press plant adds a revenue stream to the operation while both reducing our environmental footprint and dramatically improving water recovery from the tailings stream.

The current Vanggatfontein ROM Coal Reserve will sustain a 20-year life. Eskom's demand is expected to continue increasing, positioning Vanggatfontein, as a primarily Eskom-focused producer, for continued growth.

Subsequent to year-end, the long-standing dispute with Megacube Mining Proprietary Limited relating to several breaches of the contract mining agreement at Vanggatfontein was resolved in Keaton Mining's favour at arbitration.

Vaalkrantz Colliery*

Key facts

Ownership
- Leeuw Mining and Exploration Proprietary Limited

Location
- 20km east of Vryheid, KwaZulu-Natal

Mining method
- Underground conventional bord and pillar

Permitting
- Mining Right 211 expiring on 10 April 2018
- Mining Right 225 expiring on 4 May 2024

Products produced
- Anthracite for domestic and export metallurgical markets

Infrastructure
- Two shaft complexes comprising four underground access portals
- A 110tph two-stage anthracite washing plant producing duff, peas and nuts
- Change houses, offices, workshops, laboratory and clinic
- Extensive fleet of underground mining equipment, related power and water reticulation, extensive road infrastructure, stockpile areas and weigh-bridges
- Railway siding

Property, plant and equipment value at 31 March 2016:
- R26.6 million (FY15: R52 million)

LTIFR to 31 March 2016
- 0.06 (FY15: 0.22)

Employees at 31 March 2016
- 52 permanent, 26 interns/learners/apprentices, 1 MQA fixed-term contract, 200 contractors (FY15: 52 permanent, 35 interns/learners/apprentices, 2 MQA fixed-term contracts, 794 contractors)

Community involvement
- Completion and handover to beneficiaries of six houses in Mbilane
- Continued funding of 18 community apprentices
- Completion of the revamping and equipping of the crèche in Ezinyambe
- Continued funding of 11 community university students through the LME bursary scheme
- Continued funding of 10 graduate interns and nine work experience learners for on-the-job training exposure

** Vaalkrantz Colliery was sold as part of the sale of LME during FY16 and was placed on care and maintenance post year-end.*

Salient features

Coal Reserve	Coal Resource (MTIS)	Life of mine	Washing capacity	Permitting
No Coal Reserve declared (FY15: 2.0Mt)	**11.3Mt** (FY15: 11.5Mt)	**Estimated 4.5 years**	**110tph two-stage DMS**	**Mining Right**

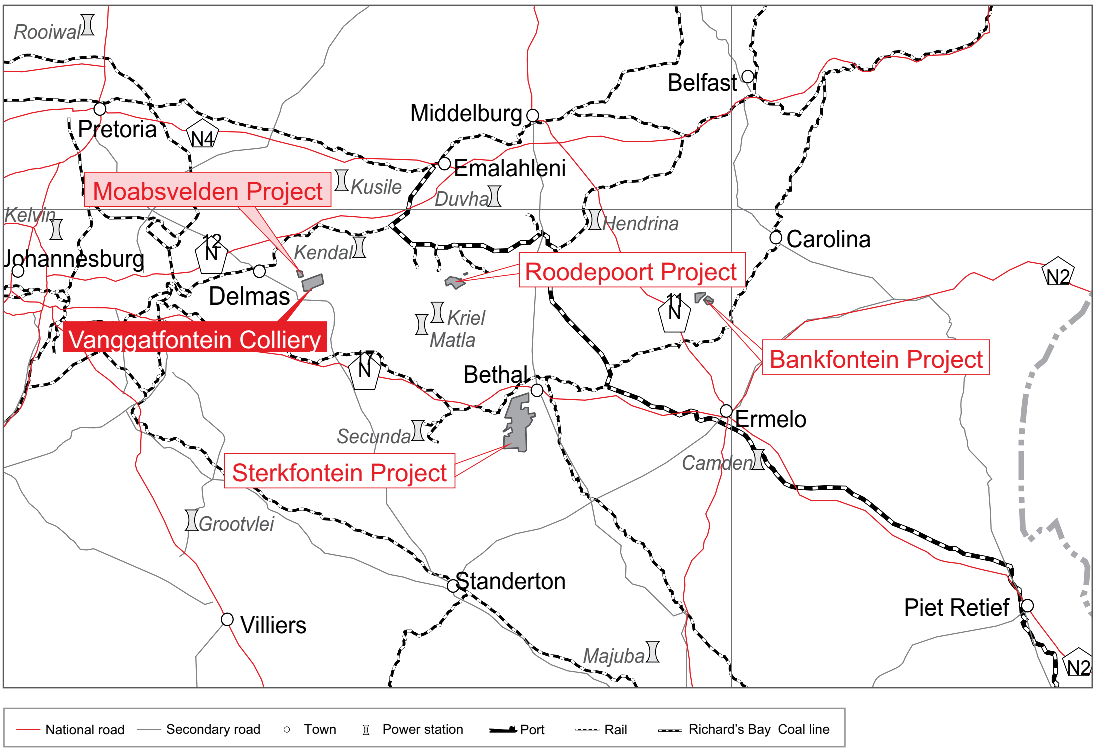
Contribution to group performance	FY16	FY15	% change
Production			
Sales (Mt)	**0.30**	0.40	(25)
ROM (Mt)	**0.13**	0.35	(63)
Safety			
LTIFR	**0.06**	0.22	(73)
Fatality-free man hours	**1 433 947**	286 893	>100
People			
Number of employees (including contractors)	**279**	883	(71)
Financial performance			
Revenue (Rm)	**176.8**	266.7	(34)
Gross loss (%)	**(18)**	(3)	>100
EBITDA (Rm)	**(138.9)**	(88.8)	56
Depreciation/amortisation (Rm)	**(4.0)**	(18.3)	(78)
Operating loss (Rm)	**(142.9)**	(107.1)	33
Capex (Rm)	**9.0**	19.5	(54)

Vaalkrantz comprises the Enyati and West adits which provide access to the high-quality Alfred and Gus seams of the Vryheid Coalfield. Generally, mining conditions in the KZN coalfields are among the most challenging in the South African coal industry. The seams are narrow and the intensity of dolerite dykes and sills, which are responsible for the creation of the anthracitic-quality coal seams, make underground planning and operation very complex. ROM production is trucked from the respective adits to the central double-stage DMS CHPP where sized products of various qualities are produced. All of our saleable coal is trucked from the plant to our boomlaer rail siding near Hlobane, from where products are either trucked or railed to both domestic and export customers.

Vaalkrantz Colliery reported a LTIFR of 0.06 (FY15: 0.22). The LME group incorporating Vaalkrantz Colliery was classified as "held-for-sale" during the year and a sale process was initiated. In February 2016, KEH concluded an agreement with BER to dispose of its wholly owned subsidiary LME thereby exiting the group's exposure to anthracite operations and projects entirely. Post-year-end, Vaalkrantz Colliery was placed on care and maintenance notwithstanding continuous efforts by both LME and BER to minimise the losses exacerbated by the ongoing global decline in coal prices, *force majeure* declared on LME by its biggest customer and the unavailability of water due to the continued drought in the region. LME embarked on a section 189A process for the retrenchment of all employees during April 2016 which was finalised and became effective on 31 May 2016. Coal sales for the year were 45 556t domestic (FY15: 142 176t), 70 600t export (FY15: 138 300t) and 185 799t high ash (FY15: 114 974t).

Project pipeline

MPUMALANGA PROJECTS



MOABSVELDEN

▹ Key facts

Ownership
- Neosho Trading 86 Proprietary Limited

Location
- 13km east of Delmas, Mpumalanga

Permitting
- Mining Right expiring on 15 October 2031

Mining method
- Opencast truck and shovel

Life of mine
- 16 years

Coal Resource (MTIS)
- 54.7Mt (FY15: 54.7Mt)

Coal Reserve
- 39.9Mt (FY15: 39.8Mt)

Planned infrastructure
- Satellite opencast pit operation
- ROM hauled to Vanggatfontein for processing
- Water pipeline
- Offices and ablution blocks
- 350tph coal washing plant

Planned products
- Primary washed Eskom thermal product
- 5 seam metallurgical product
- Filter cake

Project status
- Surface acquisition nearing completion
- IWUL approval outstanding
- Eskom CSA outstanding
- Project funding outstanding

STERKFONTEIN

▹ Key facts

Ownership
- Keaton Mining Proprietary Limited and Labohlano Trading 46 Proprietary Limited

Location
- 10km south-west of Bethal, Mpumalanga

Mining method
- Underground mechanised bord and pillar

Coal Resource (MTIS)
- 90.9Mt (FY15: 90.9Mt)

Planned infrastructure
- Integrated stand-alone underground operation
- Access road
- Ventilation shafts
- Coal washing plant
- Pollution control facilities, offices, water and power supply

Planned products
- Primary product for supply into the export thermal market
- Secondary middling product for supply to Eskom

BANKFONTEIN

▹ Key facts

Ownership
- Richtrau 379 Proprietary Limited

Location
- 30km north of Ermelo, Mpumalanga

Mining method
- Underground mechanised bord and pillar, potential for opencast truck and shovel

Coal Resource (MTIS)
- 16.1Mt (FY15: 16.1Mt)

Planned products
- Export and Eskom-quality thermal coal
- Potential for high-quality domestic industrial applications

ROODEPOORT

▹ Key facts

Ownership
- Richtrau 377 Proprietary Limited

Location
- 6km north of Kriel, Mpumalanga

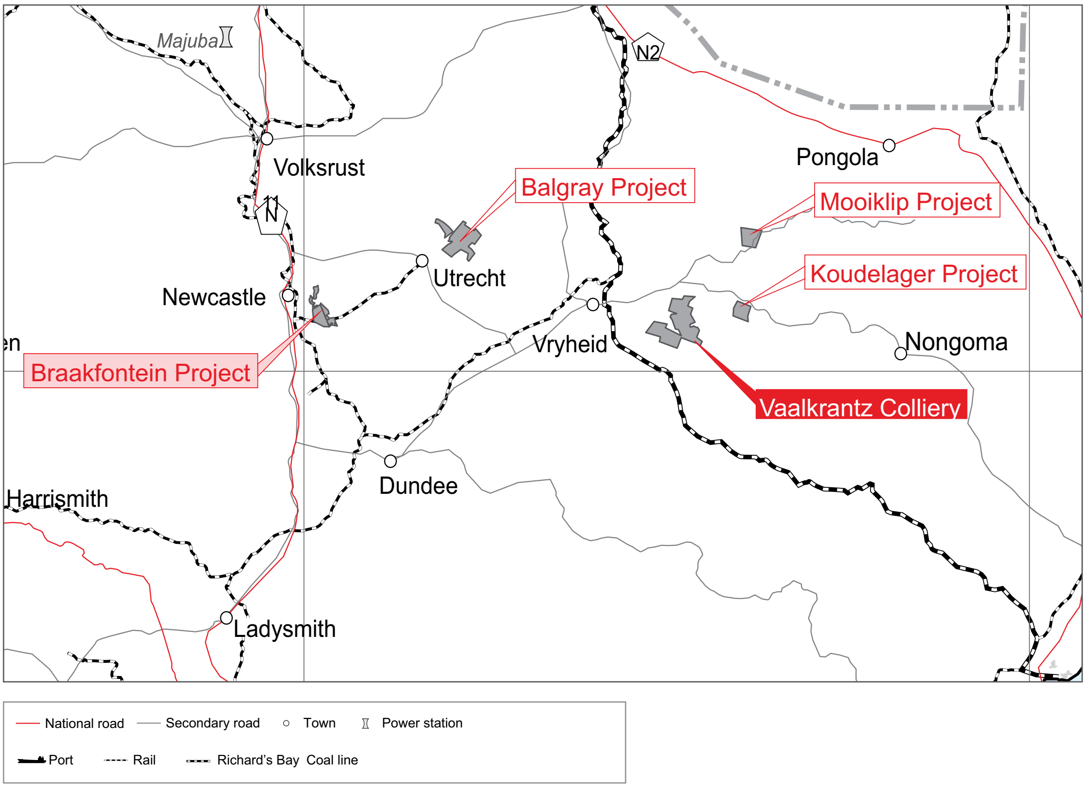
Mining method
- Underground mechanised bord and pillar
- Potential for opencast truck and shovel

Coal Resource (MTIS)
- 25.1Mt (FY15: 25.1Mt)

Planned products
- Export and Eskom-quality thermal coal

Project pipeline continued

KZN PROJECTS



BRAAKFONTEIN

▹ Key facts

Ownership
- Leeuw Braakfontein Colliery Proprietary Limited

Location
- 10km south-east of Newcastle, KwaZulu-Natal

Permitting
- Mining Right expiring on 28 August 2027

Mining method
- Largely mechanised underground with approximately a three-year opencast from commissioning

Coal Resource (MTIS)
- 60.1Mt (FY15: 60.1Mt)

Planned infrastructure
- Integrated standalone opencast and underground operation
- Coal processing through on-site washing plant
- Pollution control facilities, offices, water supply and power supply, and access roads

Planned products
- Primary product for supply into the export thermal market
- Secondary middling product for supply to Eskom

Project status
- Feasibility study commissioned December 2014, still underway

KOUDELAGER

▹ Key facts

Ownership
- Leeuw Mining and Exploration Proprietary Limited

Location
- 40km east of Vryheid, KwaZulu-Natal

Permitting
- Mining Right expiring on 10 April 2041

Mining method
- Underground narrow seam conventional bord and pillar

Coal Resource (MTIS)
- 12.3Mt (FY15: 12.3Mt)

Planned infrastructure
- Satellite underground adit
- ROM proposed to be hauled to Vaalkrantz through existing Vaalkrantz CHPP
- Mine offices, water supply, power supply and access road

Planned products
- Primary product for supply into the domestic metallurgical market
- Secondary product for supply into the Brazilian iron ore palletising market

Project status
- Pre-feasibility exploration
- Feasibility study/project implementation study

Highlights
- Concluded an agreement for the disposal of LME in February 2016 to BER

MOOIKLIP

▹ Key facts

Ownership
- BSC Resources Proprietary Limited – Option and Acquisition Agreement with Amalahle Exploration Proprietary Limited

Location
- 40km east-north-east of Vryheid, KwaZulu-Natal

Mining method
- Underground narrow seam conventional bord and pillar

Planned infrastructure
- Satellite underground adit, ROM proposed to be hauled to Vaalkrantz through existing Vaalkrantz CHPP
- Mine offices, water supply, power supply and access road

Planned products
- Anthracite for sale into the export and domestic ferroalloy markets

Highlights
- Concluded an agreement for the disposal of Amalahle Exploration in February 2016 to BER

BALGRAY

▹ Key facts

Ownership
- Leeuw Mining and Exploration Proprietary Limited

Location
- 5km north-east of Utrecht, KwaZulu-Natal

Permitting
- Mining Right application in progress

Mining method
- Underground scoop bord and pillar on the 1.3m thick Gus seam

Planned infrastructure
- Satellite underground adit
- ROM proposed to be hauled to Vaalkrantz processed through existing Vaalkrantz CHPP
- Mine offices, water supply, power supply and access road

Planned products
- Anthracite for sale into the export and domestic ferroalloy markets

Project status
- Pre-feasibility exploration will commence upon award of Mining Right
- Feasibility study to follow exploration

Highlights
- Clarification and submission of the MRA refusal response done in April 2015
- Presentation of the outcome on the mitigating measures completed
- Mining permit granted in February 2016
- Outcome of these processes will provide the terms upon which the Mining Right will be awarded
- Concluded an agreement for the disposal of LME in February 2016 to BER

Abridged Coal Resource and Coal Reserve Statement

Introduction

Our coal portfolio consists of an operating asset and a number of exploration properties, grouped into two broad geographic regions.

- The Witbank/Highveld region comprises the Vanggatfontein Colliery and Moabsvelden project located approximately 15km east of the town of Delmas, and the Sterkfontein, Roodepoort and Bankfontein projects located near to the towns of Bethal, Kriel and Breyten in the Mpumalanga province, respectively.
- The KZN region comprises the Vaalkrantz Colliery and the Koudelager, Balgray and Mooiklip projects as well as the Braakfontein thermal exploration project.

The locality of our assets is illustrated in Figure 1.

Our Coal Resource Management strategy seeks to strengthen the group's Coal Reserve position, to systematically replace depleted reserve tonnes and to create growth opportunities through ongoing exploration and resource evaluation. The fundamental principles are to ensure compliance with public regulatory codes and internal standards through integrity, transparency and materiality in reporting, and to inform stakeholders of the status of the group's core asset base. Realistic prospects for eventual economic extraction have been the emphasis in the compilation of this Coal Resource and Coal Reserve Statement.

The information in this abridged report is presented on a group and regional basis in appropriate detail, summarising the current status and changes at each operation with reserve replacement and growth projects considered. The full report should be read in conjunction with the IAR, which provides additional information regarding the operations and their financial performance as found on our website www.keatonenergy.co.za.

As at 31 March 2016 Keaton Energy holds a total managed Coal Resource of 384.2Mt (attributable 260.0Mt) and a corresponding total managed Coal Reserve of 84.3Mt (attributable 62.4Mt) net of 3.9Mt depletion for the period.

Important notes:

- Coal Resources and Coal Reserves are compliant with SAMREC 2009;
- Coal Resources are reported inclusive of Coal Reserves, net of mining depletions;
- All Coal Resources and Coal Reserves reported are managed by Keaton Energy unless otherwise stated;
- Rounding-off of figures in this report may result in minor computational discrepancies. Where this occurs it is not deemed significant;
- All references to tonnes (t) and/or tons are metric units;
- All Coal Resource tonnes are reported on an AD basis, with Coal Reserve tonnages reported on an AR basis; and
- The Coal Resources and Coal Reserves are estimates at a point in time and will be affected by changes in coal market pricing, currency fluctuations, permitting, changes in legislation, costs and other operating parameters.

For definitions and abbreviations please refer to pages 201 to 204.

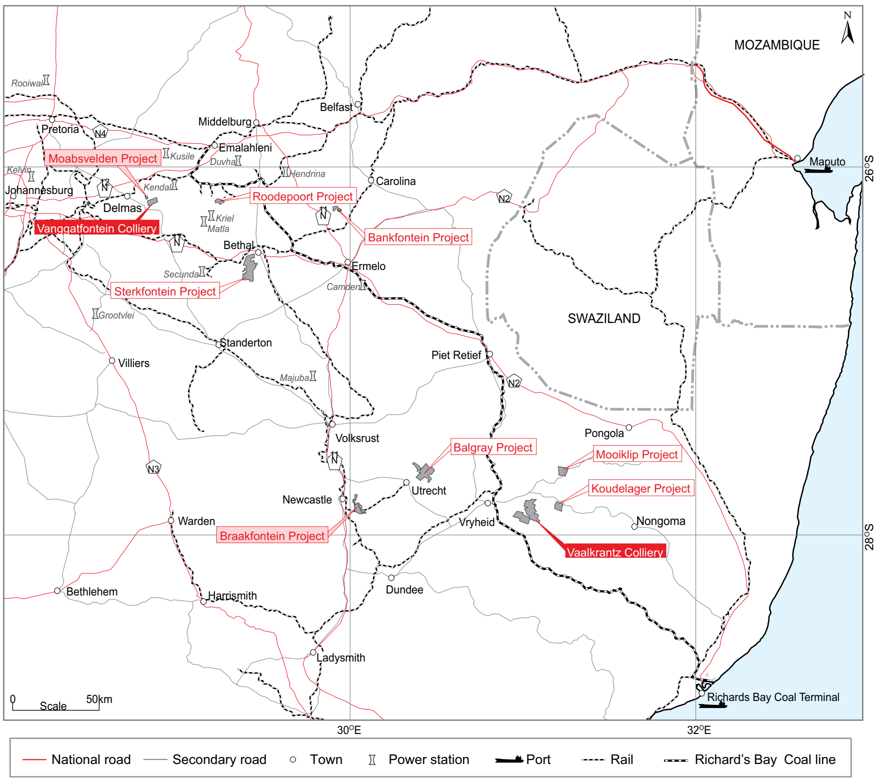


Figure 1: Locality map

Compliance and reporting basis

This Coal Resource and Coal Reserve Statement has been compiled consistent with the terms of The South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (the SAMREC Code, 2007 as amended July 2009). Under the SAMREC Code particular reference is made to the South African Guide to the Systematic Evaluation of Coal Resources and Coal Reserves – South African National Standard (SANS 10320:2004). Reporting is also in accordance with section 12.11 of the JSE Listings Requirements.

The respective Coal Resource and Coal Reserve tables are compiled from comprehensive independent statements received from appointed CPs. Each CP has sufficient, relevant experience in the style of mineralisation, type of deposit, mining method and activity for which they have taken responsibility, to qualify as a CP as defined in section 9 of the SAMREC Code. All CPs signed their respective estimates and consent to the inclusion of information into this report in the form and context in which they appear. Each CP is independent of the issuer and does not have a material interest capable of affecting their ability to give an unbiased opinion in the projects for which they take responsibility and, have not received, and will not receive, any pecuniary or other benefits in connection with the estimates presented, other than normal consulting fees. It is noted that Dr PJ Hancox has an indirect beneficial interest in Keaton Energy through the holding of 100 000 shares in the company.

The abridged Coal Resource and Coal Reserve Statement was compiled from relevant data extracted from the respective contributing CP reports by Mr Jaco Lotheringen. Mr Lotheringen is the Lead CP, registered with the South African Institute of Mining and Metallurgy [(SAIMM, PO Box 61127, Marshalltown, 2107), registration number 701237] and the Engineering Council of South Africa [(ECSA, Private Bag X691, Bruma, 2026) registration number 20030022], holds a BEng (Mining) (University of Pretoria) degree and a Mine Manager's certificate of competency (fiery mines). He is a mining engineer with 18 years' experience in mining project development. Mr Lotheringen is currently a director of Ukwazi Mining Solutions Proprietary Limited (Private Bag X159, Centurion, 0046). He has provided written consent to the inclusion in this report of the SAMREC compliant Coal Resource and Coal Reserve estimates in the form and context in which they appear.

Competent persons

The Coal Resource estimations and classifications for the Vanggatfontein, Vaalkrantz, Braakfontein, Koudelager and Sterkfontein assets were prepared under the supervision of Dr Philip John Hancox of Caracle Creek International Consulting Coal Proprietary Limited (CCIC Coal, PO Box 9062, Devon Valley, 1715). Dr Hancox is a member in good standing of the South African Council for Natural Scientific Professions (SACNASP: Private Bag X450, Silverton, 0127, registration number 400224/04) as well as a member and fellow of the Geological Society of South Africa and the Society of Economic Geologists. He is also a lifetime member of the Geostatistical Association of South Africa, an Executive Committee member of the Fossil Fuel Foundation, and a core member of the Prospectors and Developers Association of Canada. He has 18 years' experience in the South African coal industry, holds a PhD from WITS University, and has authored a number of published and unpublished academic articles on the Karoo Basin and its contained coal deposits, as well as over 70 peer-reviewed scientific papers on various aspects of sedimentary geology, basin analysis, coal and palaeontology. He is also a regular presenter and contributor at coal conferences, and was a member of the SABS TC-27 Working Group, which recently completed a re-write of the SANS 10320 coal guidelines.

The Moabsvelden, Bankfontein and Roodepoort Project Coal Resource estimates and classifications were prepared by Mr Kobus Dippenaar of Gemecs Proprietary Limited [(Gemecs, PO Box 652252, Benmore, Sandton, 2010)]. Mr Dippenaar holds a BSc honours degree in geology from the University of Pretoria and is a member in good standing of SACNASP (registration number 400079/94). Mr Dippenaar has over 25 years' experience in the mining industry, mainly on coal geology and environmental disciplines. During his career he was employed as mine, project and exploration geologist, as well as environmental manager at a number of different operations in South Africa. The respective estimates are extracts of CPs' Reports authored by Mr Dippenaar in compliance with the recommendations and guidelines set out in the SAMREC Code.

The Vanggatfontein Colliery and Moabsvelden Project Coal Reserve estimates and classifications were prepared by Mr Leon Raaths of Miptec Consulting Proprietary Limited (PO Box 40084, Reyno Ridge, 1049). Mr Raaths holds a BTech Mining degree from UJ, a BSc in Operations Research from Unisa and an MBL from Unisa SBL. Mr Raaths is registered with the SAIMM (registration number 702015). Mr Raaths has 26 years' experience in coal mining, the largest portion of which was on technical and project disciplines, where the determination of Coal Reserves was part of his responsibility. This was largely for BHP's South African collieries, Xstrata South Africa, CIC Energy and now as an independent consultant.

Mr Raaths is currently responsible for all short, medium and long-term planning as well as data management and reconciliations for Keaton Mining's Vanggatfontein Colliery. Mr Raaths is also a member of SACMA.

Abridged Coal Resource and Coal Reserve Statement continued

The respective CPs are listed below with reference to the respective operations and projects for which they have taken responsibility.

Operation/project	Holding company	COMPETENT PERSON Coal Resource estimate	COMPETENT PERSON Coal Reserve estimate
Vanggatfontein Colliery	Keaton Mining Proprietary Limited	Dr P J Hancox, CCIC Coal	Mr L Raaths, Miptec
Moabsvelden Project	Neosho Trading 86 Proprietary Limited	Mr K Dippenaar, Gemecs	Mr L Raaths, Miptec
Vaalkrantz Colliery	Leeuw Mining and Exploration Proprietary Limited	Dr P J Hancox, CCIC Coal	N/A
Braakfontein Project	Leeuw Braakfontein Colliery Proprietary Limited	Dr P J Hancox, CCIC Coal	N/A
Koudelager Project	Leeuw Mining and Exploration Proprietary Limited	Dr P J Hancox, CCIC Coal	N/A
Sterkfontein Project	Keaton Mining Proprietary Limited and Labohlano Trading 46 Proprietary Limited	Dr P J Hancox, CCIC Coal	N/A
Mooiklip Project	Amalahle Exploration Proprietary Limited	N/A	N/A
Roodepoort Project	Richtrau 377 Proprietary Limited	Mr K Dippenaar, Gemecs	N/A
Bankfontein Project	Richtrau 379 Proprietary Limited	Mr K Dippenaar, Gemecs	N/A

**As the Balgray Project Mining Right application remained in process at the date of this report, the project geology is not reported on.*

**Copies of the respective contributing CP Reports are available from Keaton Energy on request.*

Definitions of Coal Resources and Coal Reserves

The following Coal Resource and Coal Reserve definitions are extracts from the SAMREC Code:

An **"Inferred Coal Resource"** is that part of a Coal Resource for which volume or tonnage and coal quality can be estimated only with a low level of confidence. It is inferred from geological evidence and sampling and assumed physical continuity with or without coal quality continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill-holes, information that is limited or of uncertain quality and reliability.

An Inferred Coal Resource is defined by the coal in the full seam above the minimum thickness cutoff and relevant coal quality cutoffs, as defined by the CP, which meets the criteria for reasonable and realistic prospects of eventual economic extraction. An Inferred Coal Resource is quantified by a minimum of one (1) cored borehole with coal quality data per 100ha (approximately 1km spacing) for multiple seam deposit types which categorises all of Keaton Energy's coal deposit types.

An **"Indicated Coal Resource"** is that part of a Coal Resource for which tonnage, densities, shape, physical characteristics and coal quality can be estimated with a moderate level of confidence. It is based on information from exploration, sampling and testing of material gathered from locations such as outcrops, trenches, pits, workings and drill holes. The locations are appropriate to confirm physical continuity, while the locations are too widely or inappropriately spaced to confirm the continuity of the coal quality. However, such locations are spaced closely enough for such continuity to be assumed.

An Indicated Coal Resource is defined by the coal in the full seam above the minimum thickness cutoff and relevant coal quality cutoffs, as defined by the CP, which meets the criteria for reasonable and realistic prospects of eventual economic extraction. An Indicated Coal Resource is quantified by a minimum of four cored boreholes with coal quality data per 100ha (approximately 500m spacing) for multiple seam deposit types.

A **"Measured Coal Resource"** is that part of a Coal Resource for which tonnage, densities, shape, physical characteristics and coal quality can be estimated with a high level of confidence. It is based on detailed and reliable information from exploration, sampling and testing of material gathered from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm physical and coal quality continuity.

A Measured Coal Resource is defined by coal in the full seam above the minimum thickness cutoff and relevant coal quality cutoffs, as defined by the CP, which meets the criteria for reasonable and realistic prospects of eventual economic extraction. A Measured Coal Resource is quantified by a minimum of eight cored boreholes with coal quality data per 100ha (approximately 350m spacing) for all deposit types.

The classification of Coal Resources into Inferred, Indicated and Measured categories is therefore a function of increasing geological confidence in the estimate based on the density of points of observation, the physical continuity of the coal seams, the distribution and the reliability of the coal sampling data, the coal quality continuity, the reliability of the geological model, and the evaluation method. Factors that contribute to the uncertainty in Coal Resource estimation include the key constraints used to construct the geological model, seam thickness variations and coal quality distribution within the geological model.

A **"Probable Coal Reserve"** is the economically mineable material derived from a Measured or Indicated Coal Resource or both. It is estimated with a lower level of confidence than a Proved Coal Reserve. It includes diluting and contaminating materials and allows for losses that are expected to occur when the material is mined. Appropriate assessments to a minimum of a pre-feasibility study for a project or a life-of-mine plan for an operation must have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. Such modifying factors must be disclosed.

A **"Proved Coal Reserve"** is the economically mineable material derived from a Measured Coal Resource. It is estimated with a high level of confidence. It includes diluting and contaminating materials and allows for losses that are expected to occur when the material is mined. Appropriate assessments to a minimum of a pre-feasibility study for a project or a life-of-mine plan for an operation must have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. Such modifying factors must be disclosed.

A **"Mineable *In Situ* Coal Reserve"** is the tonnage and coal quality, at specified moisture content, contained in coal seams, or sections of seams, that are proposed for mining, adjusted by the application of the geological loss factors. Sufficient information must be available to enable conceptual or detailed mine planning, and such mine planning must have been undertaken.

A **"ROM"** is the tonnage and coal quality of Mineable *In Situ* Coal Reserves that are expected after all geological losses, mining losses, mining dilution, contamination and moisture-content factors have been applied.

A **"Saleable Coal Reserve"** is the tonnage and coal quality that will be available for sale, either in the raw ROM state at a specified moisture content or after beneficiation of the ROM Coal Reserves has produced materials at specified qualities, moisture contents and size ranges.

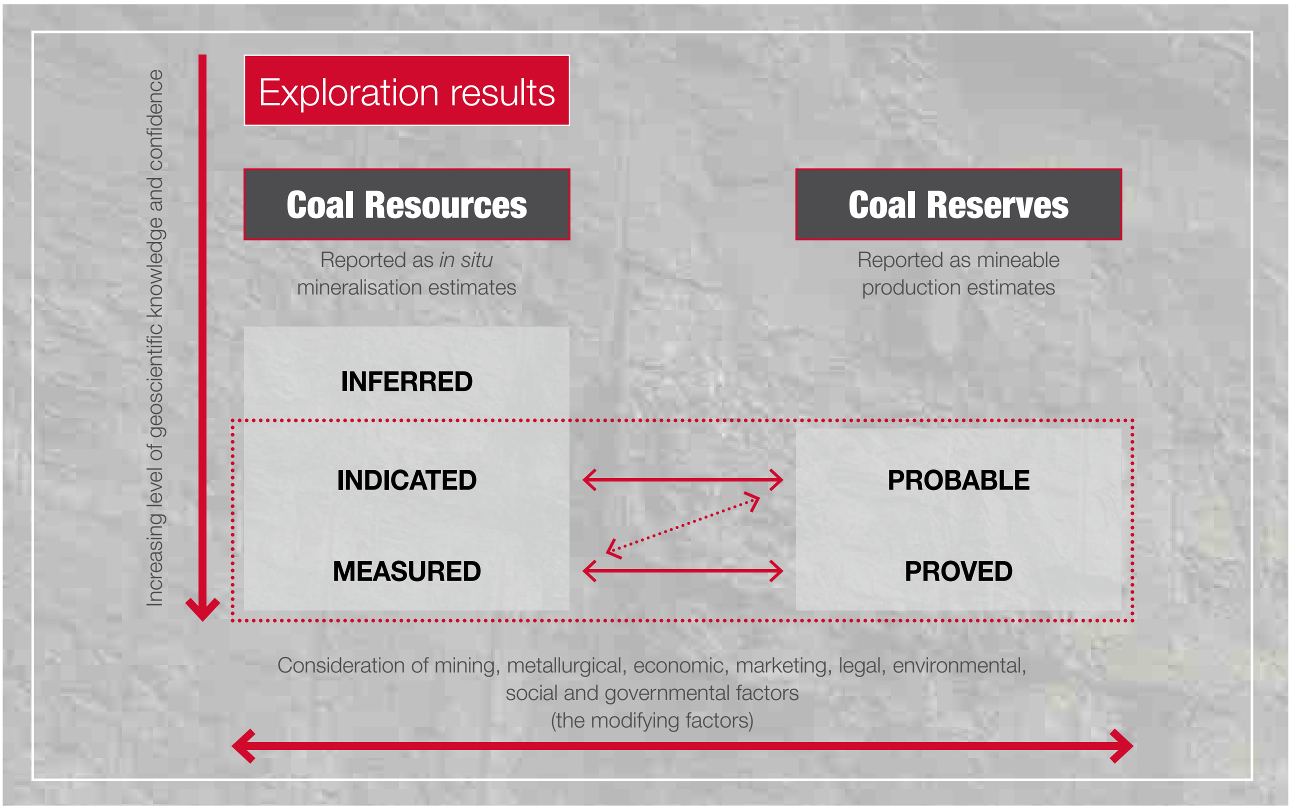


Figure 2: Coal Resource and Coal Reserve classification

Abridged Coal Resource and Coal Reserve Statement continued

Coal Resource estimation methodology

Prior to the acquisition of Xceed Resources in February 2014, all of Keaton Energy's Coal Resource estimates were compiled by Dr P J Hancox from CCIC Coal. Subsequent to the acquisition of Xceed in February 2014, for continuity, the Coal Resource estimates for the contributing Xceed assets continue to be compiled by Mr K Dippenaar of Gemecs.

The respective modelling and estimation methodologies applied by the respective CPs are described here for completeness. While the electronic modelling packages differ, the fundamental estimation and classification approaches are unlikely to yield material variances in the estimated tonnages and categorisations. In any event, the guiding principle behind Coal Resource categorisation relies on borehole densities for the respective Coal Resource categories defined above.

CCIC Coal

The geological models and volume and tonnage estimations for the Vanggatfontein, Vaalkrantz, Braakfontein, Sterkfontein and Koudelager assets were generated using the Datamine Studio 3™ software (Studio 3). In preparation for the geological model and estimation of the coal resource, three separate databases were compiled and validated, these being the collar, lithology and raw quality databases. The limit of weathering and depth of soft overburden were identified where possible.

To avoid estimation errors caused by differences in seam thicknesses, quality control performed on the qualities database involved ensuring that the sampling intervals matched the coal intervals in the lithology logs. Where differences were recorded between the coal thicknesses in the sampling and lithology logs, the sampling intervals were considered to reflect the true thickness, and the lithology logs were adjusted accordingly. Where possible these were also compared with the wireline logs.

As a first pass of the modelling procedure, distances between borehole collars were measured to establish the approximate borehole spacing. The wireframes of the geological model were extended beyond the outermost boreholes by one-third of the average drilling spacing or to a fixed boundary such as the property boundary, projected outcrop and/or limit of weathering. Wireframes of the seams were produced and checked for geological integrity.

The final wireframes of the different seams were verified and limited against the property boundaries. These wireframes were then used to create block models consisting of cells 50m x 50m x seam thickness. Raw qualities were estimated into these cells using the inverse distance squared (IDP^2) method with a search radius depending on the average borehole spacing. The minimum number of samples was set as one and the maximum number of samples at five.

Quality grids for raw as well as washed coal qualities and yields are modelled. All the reported coal qualities, ie CV, Ash, VM, FC, IM, TS, TP and yield are modelled per coal seam to enable raw and washability reporting. Various coal quality grids were modelled on a project-by-project basis depending on market specifications.

Prior to the estimation of volumes and tonnages, which were undertaken on the block model, the resource categories were established according to SAMREC guidelines by calculating the average number of boreholes per 100ha (BH/100ha).

A minimum of 95% sampling coverage is applied to all seams to enable coal quality modelling.

In order to estimate the GTIS, a thickness cutoff was applied depending on an opencast or underground mining method, as well as a raw ash cutoff of 50%, and a dry ash-free volatile matter cutoff depending on the coal type (>24% for bituminous coal, 24 to 16.5% for devolatilised/lean coal, <16.5% for burnt/anthracitic coal). Furthermore, the average estimated raw relative density was used for the tonnage estimation. A geological loss factor depending on the resource category, structural complexity, dolerite intrusions and level of weathering was applied to the GTIS in order to receive TTIS or MTIS as the case may be, dependent upon whether any selective mining was planned for the resource. No modelling error is applied.

The final estimates are therefore discounted to incorporate CCIC Coal's view of the anticipated geological conditions based on experience from regional operations and projects.

GEO losses	Measured %	Indicated %	Inferred %
Vanggatfontein	5	10	20
Vaalkrantz	–	20	–
Braakfontein	–	20	–
Sterkfontein	–	10	15
Koudelager	–	15	25

Gemecs

Geological, structural and coal quality models were constructed for the Moabsvelden, Bankfontein and Roodepoort projects using Gemcom Minex™ (Minex) modelling software. Seam floor and roof elevations, seam thickness, raw air-dried coal qualities, topography, limit of weathering and strip ratio (BCM/t) were modelled for each of the *in situ* coal seams. All the potential resource coal seams and the parting bands were modelled.

All core boreholes were logged by Mr Kobus Dippenaar of Gemecs, following Gemecs' in-house logging procedure and standards, and samples submitted to Noko Analytical Services (Noko Labs) in Emalahleni. Gemecs is satisfied that the coal quality data supplied by Noko is accurate and reliable, and that the appropriate sample preparation techniques and control checks were implemented.

All borehole and analytical data is imported to Micromine, Global borehole Information System (GBIS) geological borehole database and validated. Stringent analytical quality validation testing is carried out by Gemecs on all boreholes as part of validation and verification routines that are available in the GBIS borehole database and Minex software. Any boreholes failing these checks are omitted from the modelling process. A minimum of 95% sampling coverage is applied to all seams to enable coal quality modelling.

Resource boundaries are based on the occurrence of the seams and the mineral right boundaries. Total seam thickness rather than selected sub-plies are used in the modelling process. The Minex General Algorithm, also known as the Growth Technique, is used for modelling (gridding) of both structural and quality parameters and the gridding was conducted on a mesh size of 25m x 25m within a polygon limit for the existing data. A surface grid of the topography is created using a digital terrain model imported in .dxf format. A weathering surface determined by the limit of weathering as recorded in each borehole is also created. This is a very important surface as it defines the sub-outcrop limits and lateral extent of the seams. No Coal Resources are estimated between the surface grid (TOPS) and the limit of weathering surface (LOW).

Quality grids for raw as well as washed coal qualities and yields are modelled. All the reported coal qualities, ie CV, Ash, VM, FC, IM, TS, TP and yield are modelled per coal seam to enable raw and washability reporting. Various coal quality grids were modelled on a project-by-project basis depending on market specifications.

Principally, the main criteria for resource classification are based on the number of boreholes intersecting a particular coal seam(s) within a specified area and the confidence in projecting the coal quality across each seam based on the analysis performed on core samples from individual borehole intersections. Classification is guided by the following: borehole density; geological and grade continuity; geological structure and its influence on mining; geological complexity.

The borehole density and spatial distribution of cored boreholes, sampled and analysed for raw ash content, is sufficient to allow for confident extrapolation of physical and quality parameters between core boreholes and also allows for the Coal Resources to be adequately categorised into Inferred, Indicated and Measured Coal Resources as per the SAMREC Code. Coal Resource classification based on core borehole density (points of observation supported by analytical data) is as follows: Measured: 16 core boreholes per 100ha (250m x 250m grid), Indicated four core boreholes per 100ha (500m x 500m grid spacing), Inferred: one core borehole per 100ha (approximately 1km x 1km grid). Geological losses of 10% for Measured, 15% for Indicated and 20% for Inferred Coal Resources are universally applied. No modelling error is applied.

The final estimates are therefore discounted to incorporate Gemecs's view of the anticipated geological conditions based on experience from regional operations and projects.

Laboratory quality assurance and quality control

Both on-site and independent commercial laboratories are used for sample analysis and rigorous QA/QC protocols are in place at these laboratories using leading industry practice, including external audits by independent consultants.

Analysis of coal samples was conducted by the following independent laboratories:

- Bureau Veritas Proprietary Limited (Bureau Veritas): Until 2013 all sampled drill core seam intersections from Vanggatfontein were analysed at the Commodity Services division of the Inspectorate M&L Proprietary Limited. Between 2007 and 2013 various inspections of the Inspectorate M&L's laboratory in Middelburg were made by CCIC Coal and CP, Dr PJ Hancox. During this time the Inspectorate M&L also ran the on-mine laboratory for production quality control purposes. In 2013 Inspectorate M&L became part of the global Bureau Veritas Group, a world leader in testing, inspection and certification services. Bureau Veritas is SANAS accredited and operates to the same high standards and continues to operate the on-mine laboratory on Vanggatfontein. Bureau Veritas employs a stringent QA/QC protocol dealing with, among others, sample preparation, reference standards, reference materials, hidden duplicates and blanks, round robin proficiency testing programmes, calibrations, analysis procedures and non-conformance measures.

  No exploration drilling was conducted, at Vanggatfontein, during this reporting period. No samples were generated, during this reporting period for analysis at Bureau Veritas;
- Noko Analytical Services Proprietary Limited (Noko Analytical): Noko Analytical is an independent SANAS accredited coal analysis laboratory which has been in operation since 2007. Noko Analytical similarly operates within a well-constrained QA/QC protocol dealing with the same battery of issues around QA and QC listed above.

  No exploration drilling was conducted, at Moabsvelden, during this reporting period. No samples were generated, during this reporting period for analysis at Noko Analytical Services;

- Vryheid Coal Laboratory Proprietary Limited (Vryheid Coal Lab): Vryheid Coal Lab is not accredited in terms of SANAS, however through observation of the QA/QC protocols employed by the laboratory, CCIC Coal and Keaton Energy are satisfied that the results of the analyses are representative and repeatable. Vryheid Coal Lab is the only independent coal analytical laboratory in the town of Vryheid in the KZN province.

  Vryheid Coal Lab follows prescribed local SABS and ISO procedures for coal sample preparation. Coal samples are weighed as received and again after preparation prior to actual analysis. This is aimed at ensuring that the coal sampled is fully representative of the sample received. Ongoing monitoring and routine checks on scales and furnaces, including calibration of all analytical equipment and instrumentation,

Abridged Coal Resource and Coal Reserve Statement continued

ensure representative and repeatable results. On-the-job monitoring and training of staff ensures that correct procedures and best practice methods are being continually employed. All laboratory equipment and instrumentation is routinely checked and calibrated in accordance with SABS and ISO requirements.

Samples sent to Vryheid Coal Lab are prepared (to ISO 13909/4) and analysed according to the following standards: Ash (ISO 1171); Inherent Moisture (SABS 925); Volatiles (ISO 562); Calorific Value (ISO1928); Total Sulphur (ASTM D4239); Phosphorous (ISO 622); Ash Fusion Temperature (ISO 540); Total Moisture (ISO 589). Keaton Energy and CCIC Coal is satisfied that the coal sampling methodologies and the use of Vryheid Coal Lab for analytical services by Keaton for the Vaalkrantz and the neighbouring programmes is sufficient to allow for a high degree of confidence in the coal quality results of the Vaalkrantz Colliery. No bias was evident in comparison of the results from the Anglo Coal, LME and Keaton Energy analyses. Whilst production data has not been directly used in Coal Resource estimation, the mine has also been producing coal since 2003, and the raw qualities documented are in line with those recorded by Anglo Coal, LME and more recently Keaton. CCIC Coal is therefore satisfied that the coal sampling analysis methodologies for the Vaalkrantz Colliery are adequate, and may be used for quality purposes in the resource estimation.

No exploration drilling was conducted, at Vaalkrantz nor any of our neighbouring KwaZulu-Natal projects, during this reporting period. No samples were generated, during this reporting period for analysis at Vryheid Coal Laboratory.

Coal Reserve estimation methodology

Coal Reserves are declared for the operating Vanggatfontein Colliery and the Moabsvelden development asset. Coal Reserve estimates for the opencast Delmas assets, Vanggatfontein and Moabsvelden, have been compiled by Mr Leon Raaths of Miptec. The Reserve estimation methodology is described below.

In the first instance it is important that the geological and mining modelling packages provide the primary order-of-magnitude cross-check of the *in situ* volumes, relative densities and tonnages. Miptec utilises Runge Pincock Minarco (RPM) Global's Open Cut Coal XPac package as the pit design and scheduling software which provides this first GTIS reconciliation on the basis of the primary exploration inputs, both structural and quality. With a <2.5% variance in GTIS estimates the XPac model is deemed an appropriate and reasonable representation of the geological model.

A rigorous LOM schedule is then set up, with reserving modifying factors informed by experience in the current Vanggatfontein pits, from both pit planning and coal processing point of view. Modifying factors applied in the reserving process are listed in the respective sections of this report. In-pit seam losses and practical coal processing plant yield are the key parameters which are constantly monitored and modified in the forward looking models to inform realistic expectations of future production. Experience at Vanggatfontein since commencement in 2010 clearly leads to improved estimates of mine and plant output. Only Indicated and Measured Coal Resources are included for LOM scheduling purposes. In the event that an Indicated or Measured Coal Resource block is geographically isolated and cannot be accessed without including Inferred Coal Resources into the schedule, that block is excluded. In this instance additional drilling will be recommended in order to upgrade the appropriate coal blocks to at least an Indicated Coal Resource categorisation before the isolated block could be considered in LOM and reserve scheduling.

In general terms, resource blocks for which an Indicated Coal Resource categorisation has been applied qualify as a Probable Coal Reserve, and blocks for which a Measured Coal Resource categorisation has been applied qualify as Proved Coal Reserve.

Miptec's LOM schedule provides the basis for the economic modelling of the draft Coal Reserve which is conducted in-house by Keaton Energy. The colliery financial model itself is then provided to Miptec for a cross-check of the application of the schedule provided and ultimately the economics of the Coal Reserve over the full mine life.

Group Coal Resource and Reserve summary

Coal Resources and Coal Reserves reported for the period ended 31 March 2016 are summarised and compared with the 31 March 2015 estimates in Table 1. In summary, total managed Coal Resources came off 1.5% from 390.1Mt to 384.2Mt, and total managed ROM Coal Reserve reduced 7.3% from 90.9Mt to 84.3Mt mainly due to the FY2016 mining depletion at Vanggatfontein and the revised Reserve estimation at Vaalkrantz. The remaining Coal Reserve at Vaalkrantz Colliery could not sufficiently demonstrate potential for eventual economic extraction and was therefore withdrawn.

Operations

The Coal Resource Estimate for Vanggatfontein Colliery was evaluated and the ROM depletion for the period amounted to 3.7Mt from the 5, 4 and 2 seams. The combined MTIS Coal Resource reduced 4.7% from 119.3Mt to 113.7Mt. Net of depletion, the Vanggatfontein ROM Coal Reserve reduced by a further 2.2% as a result of slightly lower recovery overall with VG2 being quite significant. In the case of the VG3 pit near the wetland, fringe peripherals were not mined. On the VG4 pit side bordering the mined out VG1 pit and VG2 pit areas, pillars were left for safety reasons. The remaining LOM footprint excludes these pillars and remaining fringes.

The Vaalkrantz Coal Resource reduced 1.7% from 11.5Mt to 11.3Mt as a result of mining depletion and the construction of a new geological model. The Alfred seam resource reduced by 2.4% from 8.2Mt to 8.0Mt, mainly due to depletion for mining as well as the newly constructed geological model by CCIC Coal. The Alfred seam depletion for the period totalled 0.05Mt. Similarly, a 2.1% reduction in the Gus seam resource from 3.35Mt to 3.28Mt was due to depletion for mining as well as the newly constructed geological model. Gus depletion for the period totalled 0.07Mt.

The Vaalkrantz operation was placed on care and maintenance in May 2016. Underground mining in KZN remains challenging in the current economic setting. Due to current pricing levels and operating costs at Vaalkrantz Colliery a Coal Reserve was not estimated.

Growth projects

The current Moabsvelden IWUL application is under review by the DWS, with a 150m wetland buffer. If the proposed wetland buffer is not approved, it will have a material effect on the Moabsvelden ROM Coal Reserves, as the mine design and planning was based on a 150m wetland buffer. The impact is estimated at between 18% and 25% of the total ROM Coal Reserve reported for the Moabsvelden project. The final impact will be determined once the wetland buffer has been confirmed in the approved IWUL. Keaton Energy is not aware of any additional data or information that would have a material impact on the geological model or the resultant Coal Resource and Coal Reserve estimates.

The Braakfontein Project MTIS Coal Resource also remained at 60.1Mt and no further exploration work was conducted. Keaton Energy has taken a strategic decision to suspend the feasibility study indefinitely as a result of current market conditions.

Sterkfontein Coal Resource estimation remains unchanged at 90.9Mt (MTIS) Coal Resource estimate declared at 31 March 2015.

There were no changes to the Koudelager, Bankfontein and Roodepoort Project Coal Resource estimates reported as at 31 March 2015.

Abridged Coal Resource and Coal Reserve Statement continued

Table 1: Keaton Energy Holdings Group Coal Resource and Coal Reserve summary as at 31 March 2016

Mine / Project / Seam	31 March 2016 estimate						
	Coal Resource estimate (MTIS) (AD)*				ROM Coal Reserve estimate (MT) (AR)*		
	Inferred	Indicated	Measured	Total Coal Resource	Probable	Proved	Total ROM Coal Reserve
Vanggatfontein Colliery	**–**	**21.4**	**92.3**	**113.7**	**9.6**	**34.8**	**44.4**
5 seam	–	2.3	2.9	5.1	0.6	1.3	1.9
4 seam	–	9.2	51.2	60.4	4.3	17.6	21.9
2 seam	–	9.9	38.3	48.2	4.7	15.9	20.6
Vaalkrantz Colliery	**–**	**11.3**	**–**	**11.3**	**–**	**–**	**–**
Alfred seam	–	8.0	–	8.0	–	–	–
Gus seam	–	3.3	–	3.3	–	–	–
Moabsvelden Project	**–**	**–**	**54.7**	**54.7**	**4.0**	**35.9**	**39.9**
5 seam	–	–	2.8	2.8	0.1	2.8	2.9
4 seam	–	–	23.2	23.2	2.2	16.7	18.9
2 seam	–	–	24.2	24.2	1.5	14.0	15.4
1 seam	–	–	4.5	4.5	0.2	2.4	2.6
Braakfontein Project	**–**	**60.1**	**–**	**60.1**	**–**	**–**	**–**
Top seam	–	36.6	–	36.6	–	–	–
Bottom seam	–	23.4	–	23.4	–	–	–
Sterkfontein Project	**40.6**	**50.2**	**–**	**90.9**	**–**	**–**	**–**
4 seam	40.6	50.2	–	90.9	–	–	–
Koudelager Project	**0.9**	**11.4**	**–**	**12.3**	**–**	**–**	**–**
Alfred seam upper	–	2.4	–	2.4	–	–	–
Alfred seam lower	–	1.1	–	1.1	–	–	–
Gus seam	0.9	0.5	–	1.4	–	–	–
Dundas seam upper	–	2.1	–	2.1	–	–	–
Dundas seam lower	–	5.3	–	5.3	–	–	–
Roodepoort Project	**4.7**	**11.6**	**8.9**	**25.1**	**–**	**–**	**–**
2 seam upper	2.2	7.2	5.6	15.0	–	–	–
2 seam lower	1.8	3.2	2.1	7.1	–	–	–
1 seam	0.6	1.1	0.9	2.6	–	–	–
1A seam	0.1	0.1	0.2	0.4	–	–	–
Bankfontein Project	**11.0**	**5.1**	**–**	**16.1**	**–**	**–**	**–**
A seam	0.5	–	–	0.5	–	–	–
B seam	5.6	3.9	–	9.5	–	–	–
C seam	2.3	1.1	–	3.4	–	–	–
D seam	2.6	0.1	–	2.7	–	–	–
Total	**57.2**	**171.1**	**155.9**	**384.2**	**13.6**	**70.7**	**84.3**
Keaton attributable*	**33.0**	**116.7**	**110.1**	**260.0**	**10.0**	**52.3**	**62.4**

Full project Coal Resources and Coal Reserves are stated, AD – air dried, AR – as received.

**Bankfontein and Roodepoort projects 15% held by Keaton Energy, Moabsvelden project held 74% by Keaton Energy, all other collieries/projects held 100% by Keaton Energy.*

Coal Resources reported in this summary table are quoted inclusive of Coal Reserves.

Rounding may result in minor variances in totals presented in this table.

The Coal Resource and Coal Reserve supplement document includes full details of respective Coal Resource and Coal Reserve estimates and qualities.

31 March 2015 estimate						
Coal Resource estimate (MTIS) (AD)*				ROM Coal Reserve estimate (MT) (AR)*		
Inferred	Indicated	Measured	Total Coal Resource	Probable	Proved	Total ROM Coal Reserve
–	**33.0**	**86.3**	**119.3**	**9.4**	**39.8**	**49.2**
–	2.7	2.7	5.4	0.6	1.5	2.1
–	15.9	48.6	64.5	4.5	21.4	25.9
–	14.4	35.0	49.4	4.3	16.9	21.2
–	**11.5**	**–**	**11.5**	**2.0**	**–**	**2.0**
–	8.2	–	8.2	1.6	–	1.6
–	3.3	–	3.3	0.4	–	0.4
–	**–**	**54.7**	**54.7**	**3.9**	**35.9**	**39.8**
–	–	2.8	2.8	0.1	2.7	2.9
–	–	23.2	23.2	2.2	16.7	18.9
–	–	24.2	24.2	1.4	14.0	15.4
–	–	4.5	4.5	0.2	2.4	2.6
–	**60.1**	**–**	**60.1**	**–**	**–**	**–**
–	36.6	–	36.6	–	–	–
–	23.4	–	23.4	–	–	–
40.6	**50.2**	**–**	**90.9**	**–**	**–**	**–**
40.6	50.2	–	90.9	–	–	–
0.9	**11.4**	**–**	**12.3**	**–**	**–**	**–**
–	2.4	–	2.4	–	–	–
–	1.1	–	1.1	–	–	–
0.9	0.5	–	1.4	–	–	–
–	2.1	–	2.1	–	–	–
–	5.3	–	5.3	–	–	–
4.7	**11.6**	**8.9**	**25.1**	**–**	**–**	**–**
2.2	7.2	5.6	15.0	–	–	–
1.8	3.2	2.1	7.1	–	–	–
0.6	1.1	0.9	2.6	–	–	–
0.1	0.0	0.2	0.4	–	–	–
11.0	**5.1**	**–**	**16.1**	**–**	**–**	**–**
0.5	–	–	0.5	–	–	–
5.6	3.9	–	9.5	–	–	–
2.3	1.1	–	3.4	–	–	–
2.6	0.1	–	2.7	–	–	–
57.2	**182.9**	**149.9**	**390.1**	**15.3**	**75.6**	**90.9**
33.0	**125.5**	**105.7**	**264.3**	**11.3**	**56.0**	**67.3**

Our people

We foster an inclusive, young, dynamic, honest and transparent culture. We share a common goal and have a good work ethic. Our employees take accountability for and ownership of their delegated responsibilities and we demand that contractors do likewise.

Key indicators

	FY16	FY15
Permanent employees*	**108**	104
Interns/graduates/MQA contract	**43**	57
Contract employees	**717**	1 272
Total employees	**868**	1 433
Female employees	**121**	184
Number of employees hired/(terminated) including contractors	**565**	253
Percentage of employees represented by unions (%)	**43**	31
Total training spend (Rm)	**7 882 297**	6 418 017

** This includes Non-Executive Directors.*

Movement in employee numbers (Keaton Energy staff only)

	Head office	Vanggatfontein	Vaalkrantz	Total
Permanent employees at 31 March 2015 (excluding Non-Executive Directors)	29	15	52	96
Non-Executive Directors	8	–	–	8
Appointments	4	4	6	14
Resignations	(3)	(1)	–	(4)
Dismissals	–	(1)	(3)	(4)
Ill health	–	–	(1)	(1)
Abscondment	–	–	(1)	(1)
Transfer	–	1	(1)	–
Permanent employees at 31 March 2016	30	18	52	100
Non-Executive Directors 31 March 2016	8	–	–	8

	Head office	Vanggatfontein	Vaalkrantz	Total
New engagements				
Male	3	1	5	9
Female	1	3	1	5
Terminations				
Male	–	1	4	5
Female	3	1	–	4
Abscondment				
Male	–	–	1	1
Female	–	–	–	–
Transfers				
Male	–	–	–	–
Female	–	1	(1)	–

Human capital management is the responsibility of the Group Human Capital Manager. Our human resource policies assist line managers and employees in understanding workplace policies, procedures and behaviour. Copies of the policies are provided to all employees during induction.

The continuous audits performed by both internal and external audit found that all Keaton Energy's human resources policies comply with all minimum standards as per South African Labour Law.

Where any changes or updates are required due to legislative changes, the Group Human Capital Manager, as mandated by EXCO, amends the policies. All amendments are communicated in writing to all employees. Minimum notice periods regarding operational changes are provided for in the Basic Conditions of Employment Act, which is applied when applicable.

Our recruitment strategy is aligned to local recruitment within the geographical areas in which we operate. Only when the required skills are not available locally would we consider candidates from other geographical areas. Currently Keaton Energy does not directly employ migrant labour.

Demographics

Total staff for the group by employment level as at 31 March 2016

	Female					Male							
	A	C	I	W	Total female	A	C	I	W	Total male	Grand total	% ACI	% female
Top management	1	–	–	1	2	1	–	–	7	8	10	20	20
Senior management	–	–	1	2	3	3	–	–	4	7	10	40	30
Middle management	1	–	–	1	2	4	–	–	5	9	11	45	18
Junior management	4	1	1	4	10	4	–	–	6	10	20	50	50
Other	18	–	–	2	20	37	–	–	–	37	57	96	35
Grand total	24	1	2	10	37	49	–	–	22	71	108	70	34

A African; C Coloured; I Indian; W White

Labour relations

The group supports every employee's right to belong to a union and demonstrates this through an open and transparent relationship with all unions and their representatives.

For the reporting period, union membership among Keaton Energy employees remained stable, while at both Vaalkrantz and Vanggatfontein collieries union membership among contractor employees shows continued growth on a year-on-year basis.

Workplace	Union membership		% of workforce unionised	
	FY16	FY15	**FY16**	FY15
Keaton Energy head office	**–**	–	**–**	–
Vaalkrantz Colliery	**154**	280	**41.9**	31.7
– Contractor employed	**117**	244	**58.5**	30.7
– Keaton Energy employed	**37**	36	**71.1**	69.2
Vanggatfontein Colliery	**223**	167	**40.5**	32.5
– Contractor employed	**223**	167	**43.4**	34.9
– Keaton Energy employed	**–**	–	**–**	–

The company does not use the services of labour brokers.

In terms of recognition agreements with AMCU and NUM at Vaalkrantz Colliery, Keaton Energy negotiates annually regarding conditions of employment.

Contractors engage autonomously with unions within their workplaces which include SATAWU, AMCU and NUM at Vaalkrantz Colliery and AMCU and NUM at Vanggatfontein Colliery.

Wage agreements are applied fairly across the workforce, irrespective of gender, race or union membership.

The disciplinary system applies to all employees of the company. Our Disciplinary Policy is aimed at leading our employees towards an improved work attitude and responsibility. Disciplinary measures are therefore used to correct rather than punish. All employees are expected to be conversant with the policy and to this end it

Our people continued

is communicated in their on-boarding process and forms part of their terms and conditions of employment. Furthermore, managers responsible for maintaining discipline are trained by a human resources functionary in interpreting the policy and applying the related procedures.

Our Grievance Policy and procedures are founded on the principle that it is in the interests of both employees and employer to observe a grievance procedure to resolve any dissatisfaction or feeling of injustice regarding an employee's work or employment situation. Employees and their representatives will not suffer any prejudice as a consequence of lodging a grievance in terms of this procedure. We consider a grievance to be any matter of concern to an employee or group of employees arising out of the working situation, but excluding any issue which is required to be dealt with by the company and a recognised trade union, as well as any grievance of an individual or individuals over disciplinary action by management or an alleged unfair dismissal. No grievances were filed during the reporting period.

Skills development

We regard employee training and development as a key enabler of achieving our strategic, business and operational goals. Our total investment in training spend (including that spent by contractors) for the year was R7.9 million (FY15: R6.4 million). The increase in spend is due to the inclusion of SLP and internship spend. During the year, both Keaton Mining and LME continued training 21 work experience learning students, 20 graduate interns and 18 apprentices. An additional eight section 18.2 apprentices were enrolled in the training programme to address the Keaton Mining compliance requirements. Most of the training spend was directed to these beneficiaries. Their training involved both on-the-job and off-the-job training. Both Keaton Mining and LME continued to support 22 bursars sourced predominantly from within the mines' host communities (11 at each mine), of which 45% are women. Funding for these bursaries during the year amounted to R2 million.

We encourage employees to participate in bursary schemes as well as Keaton Energy-funded short courses to increase skills levels. Internal staff training and development is managed by the Group Human Capital Manager with external training and development managed by the Group SLP Manager through the group's SLP commitments as regulated by the MPRDA. Our average hours of training and training expenditure are summarised below:

	FY16	FY15	FY14	FY13	FY12
Total training expenditure (rand)	**9 893 449***	6 418 017*	647 592	694 215	591 228
Training expenditure as percentage of payroll (%)	**15**	3.7	3.2	5.0	1.0
Average hours of training per employee	**21**	24	16	16	16

** Includes SLP spend on bursaries, internships and apprenticeship training.*

Total staff training for the group by category level as at 31 March 2016

	Female					Male							
	A	C	I	W	Total female	A	C	I	W	Total male	Grand total	% ACI	% female
Directors and corporate managers	–	–	–	–	–	–	–	–	1	1	1	–	–
Professionals	–	–	1	–	1	3	–	–	2	5	6	67	17
Managers legislators and senior officials	–	–	–	3	3	1	–	–	1	2	5	20	60
Technicians and trade workers	1	–	–	1	2	–	–	–	–	–	2	50	100
Junior clerical and administrative workers	2	–	–	3	5	2	–	–	3	5	10	40	50
Sales workers	–	–	–	–	–	–	–	–	–	–	–	–	–
Machine operators and drivers	6	–	–	–	6	15	–	–	1	16	22	95	27
Elementary workers	3	–	–	–	3	6	–	–	–	6	9	100	33
Grand total	12	–	1	7	20	27	–	–	8	35	55	73	36

A African; C Coloured; I Indian; W White

The table above highlights the number of permanent employees who benefited from the training provided during the period under review.

Our human resource development plan is implemented and aligned with training and development budgets. In turn, our human resource development plan is aligned with our employment equity plan which supports our succession plan initiatives.

One of our biggest human capital development challenges is maintaining the balance between employee career aspirations, the demands of changing operational requirements and portable skills training. Keaton Energy's skills development programmes provide technical skills that are portable within the mining industry. These include occupational health and safety and training for specific operational functions.

Decision-making processes pertaining to the awarding of bursaries, work integrated learning opportunities and apprenticeships are informed by the commitment to building sustainable communities. As such, preference is given to the academic and skills development of host community beneficiaries although this approach does not specifically exclude beneficiaries from the rest of South Africa. With regard to local economic development initiatives that are incorporated in the SLP, the group prioritises investment in infrastructure development projects that benefit the broader host community rather than a few individuals.

Individual performance is assessed in terms of a scorecard of key performance areas, which are derived from existing job descriptions and are aligned to the overall performance measures of the group. The performance management scorecard and the assessment process also provide an opportunity to comment on developmental plans for the individual employees. See the Remuneration Committee Report on pages 86 to 89 for further detail.

Case study

Supporting women in mining

Last year we reported on Ntando Mtolo from Pietermaritzburg, KZN who is one of our bursary programme beneficiaries. She is currently enrolled as part of Keaton Energy's Graduate Development Programme, and has completed a year at Vaalkrantz Colliery in KZN where she received a permanent blasting certificate. Following this achievement, Ntando undertook the task of responsible miner under the guidance of an experienced underground manager. This entails taking charge of a production section in all respects. This forms part of her preparation for the Mine Manager's Certificate of Competence examinations. Ntando is excited to be part of the evolution in mining which includes increased mechanisation and innovation as well as the increased participation of women.

Ntando Mtolo in full PPE.

Social investment

We strive to minimise potentially negative social impacts while promoting opportunities for the local communities in our areas of operation. To achieve this, we monitor, measure and manage our social and economic impacts in terms of SLPs, which are reported annually to the DMR in terms of the MPRDA.

Mine management is proactive in building and maintaining stakeholder relationships with the local communities through the future forums where community representatives, mine management, contractor management, employees, the local municipality, and representatives of traditional authorities are represented. Community representatives and traditional authority representatives are elected by the relevant ward or traditional structures. The Future Forum sits once a month and minutes of meetings serve as an official record of proceedings. Any grievances that cannot be resolved at forum level are escalated to mine management and if again not resolved, to the group EXCO.

Our strategy for social and economic advancement of host communities is informed by the local municipality's Integrated Development Plan (IDP), and is translated into action through local initiatives incorporated into each mine's SLP. Key initiatives include local economic development projects, bursary awards to local qualifying Grade 12 graduates, internships, work integrated learning opportunities, and apprenticeship opportunities for youths.

Keaton responds to additional community needs, not included in the IDP, working directly with host communities and not through charitable organisations.

The following community upliftment projects were undertaken during the year:

- Relocation of 19 families from Vanggatfontein farm to the new houses in Delmas. Title deeds to the new houses were handed over to the beneficiaries
- Eight unemployed youths from Delmas joined the apprenticeship programme at Keaton Mining
- Completion and handover to beneficiaries of six houses in Mbilane, Vryheid
- Continued funding of 22 community bursars by both Keaton Mining and LME
- Continued funding of 18 community apprentices by LME
- Continued funding of graduate interns and work experience learners by both Keaton Mining and LME
- Awarding of a coal haulage contract to a local black-owned start-up service provider

Our strategy to improve the CSI component of our Mining Charter scorecard focuses on the award of bursaries, internship opportunities, apprenticeship training, procurement from HDSA-owned local suppliers and development of a talent pipeline to improve the group's HDSA representation in management. Accordingly, SLP targets have been set for:

- Bursaries
- Internships
- Apprenticeships
- Procurement
- Enterprise development

Bursars, interns, and apprenticeship/learnership targets and actuals

	Vanggatfontein				Vaalkrantz			
	FY16		FY15		FY16		FY15	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Bursaries	12	12	7	10	4	10	4	10
Graduate interns	6	10	3	10	9	10	7	8
Work experience students (P1 & P2)	6	11	3	10	9	10	8	9
Apprentices and learnerships	12	8	14	–	18	18	17	18
Total	**36**	**41**	**27**	**30**	**40**	**48**	**36**	**45**

An electronic data recording and monitoring system which captures all the Mining Charter and SLP-related compliance data has been maintained and enhanced. The compliance status of the group can be assessed at any point in time and relevant corrective action taken, if necessary. The system is also complemented by monthly status reviews with the Future Forum and quarterly reviews by EXCO.

Transformation

We acknowledge that integrating genuine transformation that permeates the group is critical for our sustainability in South Africa. Keaton Energy contributes to transformation by increasing the interests of HDSAs in the resources industry. All our operating subsidiaries are fully empowered in line with the requirements of the Mining Charter. HDSAs, including women, are represented as owners and directors of the operating subsidiaries and the holding company, and as employees in senior executive roles in the group.

The group complies with the provisions of the EE Act. All appointments are signed off by the Group Human Capital Manager and the CEO to ensure that the principles of the EE Act continue in force and those HDSAs with the requisite skills are appointed wherever possible.

Our Procurement Policy encourages giving preference to suitably qualified B-BBEE entities and we specifically support local SMMEs through targeted procurement initiatives. The majority of our operational procurement is consumed by our specialist contractors, who are in turn obligated to exercise Keaton Energy's procurement preference principles and to report on progress.

Fleet of Coal Haulage Contractor.

Preferential procurement spend

Vanggatfontein

R million	Total procurement spend FY16	Total procurement spend FY15
Service rendered		
Capital	15.04	45.46
Services	731.02	808.03
Consumables	111.63	143.24
Total	**857.69**	**996.73**

Vaalkrantz

R million	Total procurement spend FY16	Total procurement spend FY15
Service rendered		
Capital	9.53	21.41
Services	102.44	318.78
Consumables	63.22	113.81
Total	**175.19**	**454.00**

Financial performance review


NDEBULT

Financial performance and value creation

Extracts from the statement of profit or loss and other comprehensive income

R million	FY16	FY15*	% change
	Year ended 31 March		
Continuing operations			
Revenue	1 032.1	1 181.1	(13)
Cost of sales	(868.8)	(968.9)	(10)
Gross profit	163.3	212.2	(23)
Other income	41.2	11.3	>100
Mining and related expenses	(182.0)	(21.2)	>100
Administrative expenses	(139.0)	(75.0)	85
Operating (loss)/profit before net finance cost	(116.5)	127.3	(>100)
Net finance cost	(54.2)	(48.1)	13
Income taxation credit/(expense)	2.2	(42.2)	>100
Net (loss)/profit from continuing operations	(168.5)	37.0	(>100)

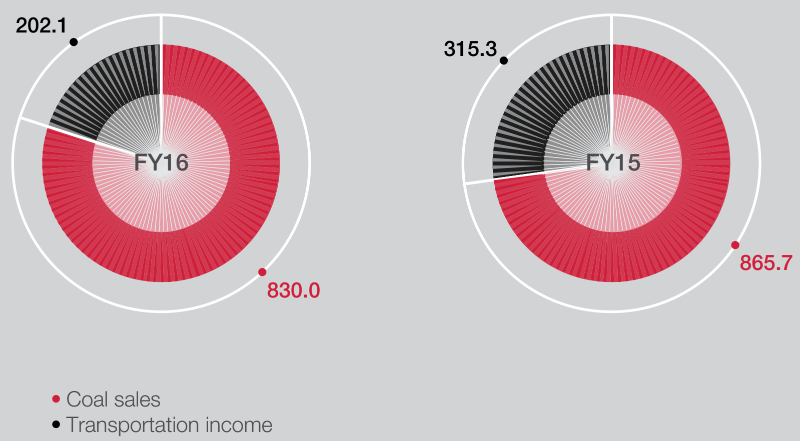
* *The 31 March 2015 group results have been restated for the effects of the application of IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations following management's decision to dispose of certain operations within the group (refer to note 10 to the financial statements for additional information).*

Group revenue from continuing operations decreased by 13%, from R1 181.1 million in FY15 to R1 032.1 million in FY16. The decrease was mainly as a result of transport revenue decreasing by 36% due to reduced transport rates from Eskom and shorter delivery distances. This, however, resulted in a decrease of 36% in transport costs paid to suppliers.

Vanggatfontein delivered 2.24Mt of washed 2 and 4 seam thermal coal to Eskom during FY16, a decrease of 2% from the previous year's 2.28Mt. Sales of 5 seam metallurgical coal decreased 22% from 0.13Mt to 0.1Mt in line with the geological model. 5 seam sales prices per tonne decreased by 7% year-on-year as a result of a decrease in commodity prices worldwide. B-grade coal sales were negligible.

Cost of sales decreased by 10% from R968.9 million in FY15 to R868.8 million in FY16. The decrease is mainly attributable to a decrease in transport costs of R103.2 million as discussed under the revenue section and a decrease in waste volumes mined at Vanggatfontein of 7%. Pleasingly the strip ratio achieved at Vanggatfontein, which excludes the rehandling of waste dumps and spoils, decreased to 2.8 from 2.9 in FY15.

Revenue
(Rm)



Fuel costs of R89.5 million were substantially lower when compared to the prior year of R122.7 million, due to lower volumes mined as well as a decrease in diesel prices.

The net of deferred stripping capitalised and depreciation expenses for FY16 were R11.2 million higher than that of FY15 as a result of coal losses in Pit 2 mining operations at Vanggatfontein.

The remaining cash cost components included in cost of sales were in line with budget and that of the prior year as detailed in note 5 to the financial statements.

The gross profit of R163.3 million or 16% of revenue decreased slightly year-on-year mainly as a result of a decrease in sales at Vanggatfontein. In addition, management took the decision in the second half of the financial year to accelerate mining of Pit 2 in order to minimise rehandling of future life-of-mine overburden and consequently reduce future cash outflow. Unfortunately coal qualities and planned yield in the last remaining cuts decreased significantly to that experienced previously in Pit 2. This not only resulted in a decrease in the expected cash generated from these last cuts, but also resulted in accelerated depreciation.

Other income

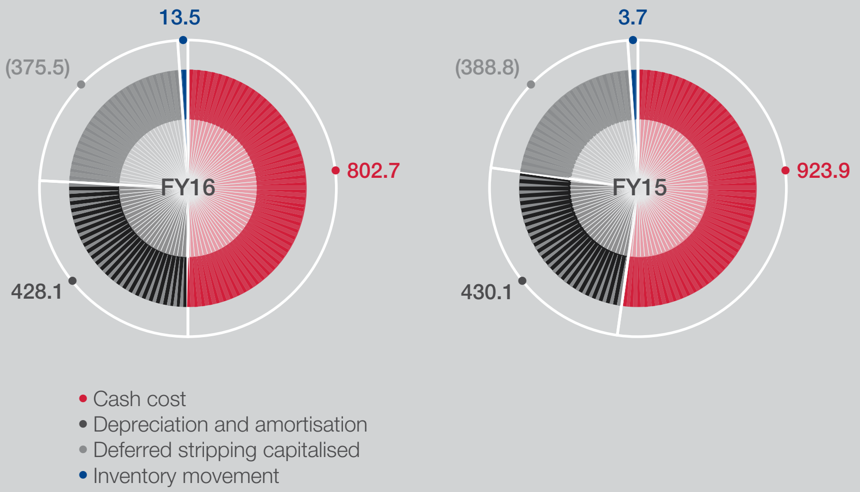
Included in other income for FY16 is a credit of R37.5 million relating to the reversal of the Megacube Mining Proprietary Limited liability previously included under trade and other payables. The group disputed that this amount was due and payable as a result of several alleged breaches of the contract mining agreement. The matter was referred to arbitration which took place during February 2016 and March 2016. Closing arguments regarding the merits of the dispute were heard in April 2016. Megacube's claim was dismissed with cost on 28 April 2016. This was an adjusting event after the reporting period resulting in the derecognition of the liability to other income.

Refer to note 41 to the financial statements for additional disclosure regarding this matter.

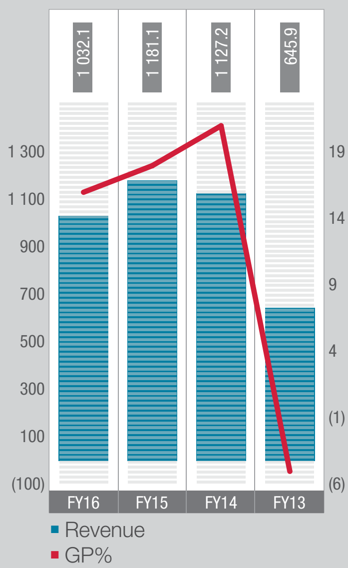
Cost of sales

R million	FY16	FY15	% change
	Year ended 31 March		
Cash cost	**802.7**	923.9	(13)
Depreciation and amortisation	**428.1**	430.1	(0)
Deferred stripping capitalised	**(375.5)**	(388.8)	(3)
Inventory movement	**13.5**	3.7	>100
	868.8	968.9	(10)

Cost of sales (Rm)



Revenue and gross profit (Rm)



Financial performance and value creation continued

Mining and related expenses

The increase in mining and related expenses relates to a once-off impairment charge of R159.2 million recorded for the Leeuw Braakfontein Colliery (LBC) project as disclosed in note 14 to the financial statements. To date the LBC project was evaluated on the basis of both an export and domestic thermal coal operation. Continued depressed export coal pricing and a bleak medium-term outlook on the Richards Bay API4 index has had a material impact on the economics of the project. We continue to evaluate alternative feasible options around an exclusive domestic supply project.

The remaining mining and related expenses were in line with budget and that of the prior year.

Administrative expenses

The increase in administrative expenses relates to the once-off initial recognition of a financial liability at fair value of R66.9 million and the derecognition of the deferred income liability of R5.4 million as reported in FY15. During FY14 the group entered into a pre-offtake finance arrangement with Gunvor SA, a fellow subsidiary of the group's largest shareholder Plusbay Limited, a wholly owned subsidiary of Gunvor Group Limited, for the supply of 600 000 tonnes of coal to be delivered from the group's Moabsvelden Project over a 22-month period from 1 January 2015 to 31 October 2016 in return for a prepayment of USD4 million. In terms of the agreement the group had to deliver the first coal volumes to Gunvor SA by latest 31 December 2015 from Moabsvelden. The group was unable to achieve this target as the development of Moabsvelden is still being delayed by the award of an IWUL by the DWS despite every effort by the group to obtain same. The group had applied for the IWUL in 2014 when it acquired the project through the acquisition of Xceed Resources Limited. As a result of not being able to supply first coal by 31 December 2015 to Gunvor SA, this breach resulted in the derecognition of the deferred income liability and the recognition of the financial liability. For more detailed disclosure refer to note 24 to the financial statements.

Other than the above, administrative expenses were in line with budget and that of the prior year.

Operating (loss)/profit before net finance cost

For a further breakdown of the contribution by each operating segment to group operating (loss)/profit before net finance cost refer to the Segment Report on pages 178 to 180.

Net finance cost

Net finance cost increased to R54.2 million from R48.1 million in FY15. The reason for the increase relates to an additional R5.1 million interest on the unwinding of the environmental provision at Vanggatfontein due to an increase in the environmental liability. Interest on group borrowings remained consistent with that of FY15 at R32.3 million.

Income taxation credit/(expense)

The income taxation credit of R2.2 million in FY16 is mainly attributable to:

- Keaton Mining's deferred taxation expense of R38.7 million, in line with that of FY15, as a result of the continued profitable performance at Vanggatfontein. The deferred taxation liability in the statement of financial position, accordingly, increased by the same amount;
- Keaton Energy Holdings Limited's taxation expense of R3.7 million of which R2.7 million relates to current taxation; and
- LBC's deferred taxation credit of R44.6 million after the reversal of the previously recognised deferred taxation liability. The reversal is as a result of the impairment loss recognised on intangible assets of R159.2 million. Refer to notes 3.1 and 14 to the financial statements for more information on the impairment. The deferred taxation liability in the statement of financial position, accordingly decreased by the same value.

Headline earnings per share

Headline earnings per share decreased from 0.4 cents per share in FY15 to a loss of 26.9 cents per share in FY16. The main reasons for the decrease relates to a lower gross profit at Vanggatfontein for FY16 and the recognition of abnormal items including the loss on initial recognition of the Gunvor financial liability of R61.5 million and the once-off credit on the reversal of the Megacube Mining Proprietary Limited liability of R37.5 million, all of which have been discussed above. In addition, the weighted average number of shares in issue for the year increased by 26.9 million shares following the acquisition of additional interests in subsidiary companies as disclosed in note 23 to the financial statements.

Extracts from the statement of financial position

R million	FY16	FY15	% change
	At 31 March		
Non-current assets	1 220.7	1 569.4	(22)
Property, plant and equipment	668.3	768.6	(13)
Intangible assets	504.6	716.4	(30)
Other non-current assets	47.8	84.4	(43)
Current assets	274.1	308.0	(11)
Cash and cash equivalents	43.4	72.5	(40)
Assets held-for-sale	83.8	–	100
Other current assets	146.9	235.5	(38)
Total assets	1 494.8	1 877.4	(20)
Equity	492.8	838.3	(41)
Non-current liabilities	607.6	688.2	(12)
Borrowings	189.6	251.7	(25)
Mine closure and environmental rehabilitation provision	263.5	270.1	(2)
Deferred taxation	124.3	129.2	(4)
Other non-current liabilities	30.2	37.2	(19)
Current liabilities	394.4	350.9	12
Borrowings	201.7	109.4	84
Provisions	–	24.7	(100)
Liabilities held-for-sale	83.8	–	100
Other current liabilities	108.9	216.8	(50)
Total liabilities	1 002.0	1 039.1	(4)

For a breakdown of total assets and liabilities per operation refer to the Segment Report on pages 178 to 180.

Property, plant and equipment

Property, plant and equipment decreased by 13% from R768.6 million in FY15 to R668.3 million in FY16. The main reason for the decrease relates to:

(i) capital investments at Vanggatfontein of R390.4 million (attributable mainly to mine development of R379.9 million and the completion of the filter press plant of R6.4 million). The rehabilitation assets at Vanggatfontein also increased by R9.3 million, relating to the increase in the rehabilitation liability; and

(ii) these were offset by depreciation charges, mainly at Vanggatfontein, of R443.2 million in FY16 compared to R462.3 million in FY15 as well as the reclassification of the disposal groups' property, plant and equipment of R56.9 million to assets held-for-sale (refer to note 19 to the financial statements for additional disclosure).

Intangible assets

The decrease of 30% in intangible assets from R716.4 million to R504.6 million, mainly relates to the impairment charge of R159.2 million for the LBC project as disclosed under mining and related expenses above as well as the reclassification of the disposal groups' intangible assets of R55.5 million to assets held-for-sale (refer to note 19 to the financial statements for additional disclosure).

Other non-current assets

Other non-current assets decreased from R84.4 million in FY15 to R47.8 million in FY16. The main reason for the decrease of 43% relates to the reclassification of the disposal groups' restricted investments of R24.2 million to assets held-for-sale (refer to note 19 to the financial statements for additional disclosure) as well as the liquidation of restricted investments for continued operations of R20.8 million due to the group being in an overfunded position.

Cash and cash equivalents

Cash and cash equivalents decreased by 40% from R72.5 million in FY15 to R43.4 million in FY16 mainly as a result of the ongoing funding of the Vaalkrantz loss making operation.

Other current assets

Other current assets decreased by 38% from R235.5 million in FY15 to R146.9 million in FY16, mainly as a result of reclassification of the disposal groups' working capital of R43.2 million to assets held-for-sale as well as the decrease in cash and cash equivalents of R23.7 million referred to above.

Equity

Total equity decreased year-on-year by R345.5 million mainly due to:

- the net loss for the year of R297.3 million; and
- the premium paid for the additional 26% non-controlling interests in Keaton Mining Proprietary Limited, Leeuw Mining and Exploration Proprietary Limited, Amalahle Exploration Proprietary Limited and Labohlano Trading 46 Proprietary Limited. The net effect of R49.6 million was recognised in equity as disclose in the statement of changes in equity and note 23 to the financial statements.

Financial performance and value creation continued

Borrowings

Total borrowings increased by R30.2 million or 8%, mainly as a result of:

- the recognition of the Gunvor SA financial liability of R65.3 million discussed under administrative expenses above;
- an additional drawdown on the Investec term loan facility of R20 million;
- finance costs of R32.3 million; and
- foreign exchange losses of R12.7 million mainly on the re-measurement of the USD-based Vitol loan.

These increases were offset by:

- debt repayments to the value of R102.6 million of which R91.5 million relates to the Investec Bank Limited term loan.

Mine closure and environmental rehabilitation provision

The mine closure and environmental provision decreased from R270.1 million in FY15 to R263.5 million in FY16. The main reason for the decrease relates to:

- an increase in the rehabilitation liability at Vanggatfontein due to additional disturbances of R9.3 million as well as the unwinding of interest on previously recognised rehabilitation liabilities of R20.9 million. These increases were offset by rehabilitation work completed at Vanggatfontein Pit 1 and Pit 2 of R4.6 million; and
- a decrease due to the reclassification of the disposal groups' mine closure and environmental rehabilitation provision of R32.3 million to liabilities held-for-sale (refer to note 19 to the financial statements for additional disclosure).

Deferred taxation

Group deferred taxation liabilities decreased from R129.2 million in FY15 to R124.3 million in FY16 in line with the movement disclosed under income taxation credit/(expense) discussed above.

Provisions

The movement in provisions relate to the Vaalkrantz stock loss provision of R24.7 million reclassified to liabilities held-for-sale (refer to note 19 to the financial statements for additional disclosure).

Other current liabilities

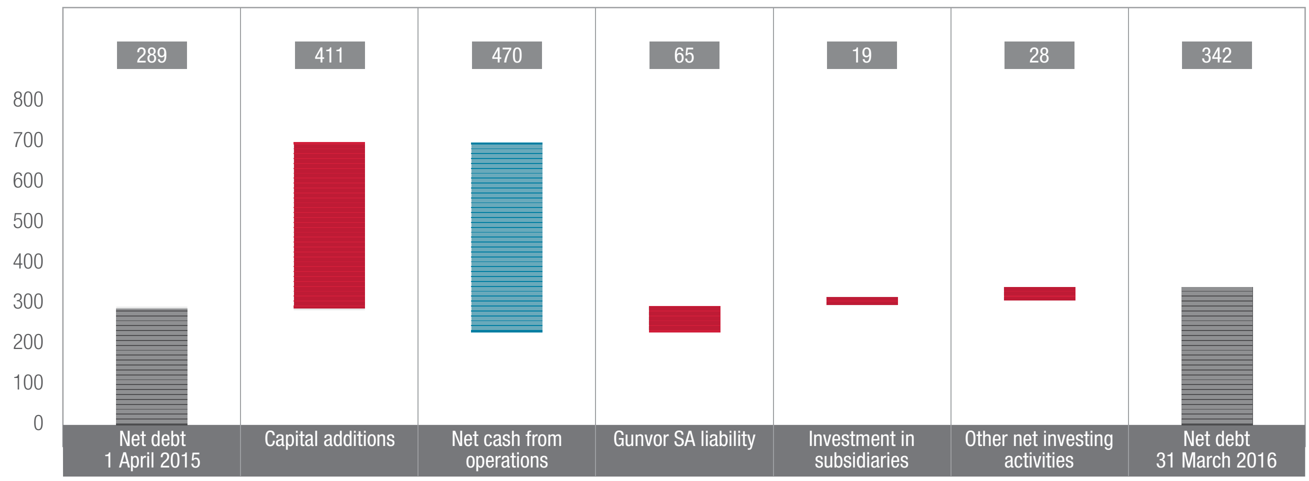
Other current liabilities decreased by 50% from R216.8 million in FY15 to R108.9 million in FY16, mainly as a result of the reclassification of the disposal groups' trade and other payables of R88.5 million to liabilities held-for-sale as well as the reversal of the Megacube liability of R42.5 million as disclosed under other income above.

Discontinued operations

The Vaalkrantz operation (part of LME) continued experiencing challenging geological conditions during the current financial year. This, coupled with the closure of two production sections as a result of safety and difficult mining conditions, continued depressed coal prices, increased costs and lower than expected yields resulted in the Board of Directors committing to a plan to dispose of the Vaalkrantz operation in September 2015. In addition, a decision was taken to dispose of the Balgray project and the Koudelager project (both part of LME) as they are seen as life extensions to the Vaalkrantz operation, as well as the Mooiklip Coal project (part of Amalahle). This disposal group is classified as a discontinued operation. The Braakfontein thermal coal project, held by LBC, a wholly owned subsidiary of LME, is specifically excluded from the disposal.

The company entered into a Sale of Shares and Claims Agreement with Bayete Energy Resources Proprietary Limited (BER) on or about 11 February 2016 as announced on 15 February 2016. There are still a number of suspensive conditions which have to be met for the sale to become effective, including section 11 consent from the Minister of Mineral Resources in terms of the Mineral Petroleum and Resources Development Act, 28 of 2002 (MPRDA). The company also simultaneously entered into a management agreement with Witbank Mineral Resources Proprietary Limited (WMR), a related party to BER for the management of LME up to and until the sale of shares and claims agreement with BER becomes unconditional. As a consequence of the occurrence of a *force majeure* event, namely the drought which has resulted in Vaalkrantz Colliery having no water within which to conduct its operations, management decided to place Vaalkrantz Colliery on care and maintenance with effect from 1 May 2016. The sale of shares and claims agreement as well as the management agreement are still effective. Management expects that the sale with BER will be completed within the next 12 months. These segments were not previously classified as held-for-sale or as discontinued operations.

Group net debt (Rm)



Extracts from the results of discontinued operations

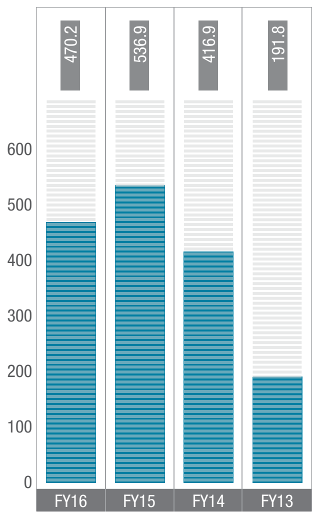
R million	FY16	FY15
Revenue	176.8	266.6
Cost of sales	(209.0)	(275.2)
Gross loss	**(32.2)**	(8.6)
Operating expenses	(99.7)	(90.5)
Operating loss before net finance cost	**(127.1)**	(90.5)
Net finance cost	**(1.6)**	(1.6)
Net loss from discontinued operations	**(128.7)**	(108.9)
As at 31 March 2016, the disposal group comprised the following assets and liabilities:		
Assets		
Property, plant and equipment	26.6	
Intangible assets	6.0	
Restricted investments	29.7	
Inventory	4.6	
Trade and other receivables	11.4	
Cash and cash equivalents	5.5	
	83.8	
Liabilities		
Borrowings	0.1	
Mine closure and environmental rehabilitation provision	34.6	
Trade and other payables	28.8	
Provisions	20.3	
	83.8	

Refer to notes 10 and 19 to the financial statements for detail on discontinued operations.

Extracts from the consolidated statements of cash flows

R million	Year ended 31 March FY16	FY15	% change
Cash flows from operating activities	470.2	536.9	(12)
Cash flows from investing activities	(404.4)	(508.9)	(21)
Cash flows from financing activities	(89.5)	(25.0)	>100
Net (decrease)/increase in cash and cash equivalents	**(23.7)**	3.0	(>100)
Cash and cash equivalents at the beginning of the year	72.6	69.6	4
Cash and cash equivalents at the end of the year	**48.9**	72.6	(33)

Cash generated from operations
(Rm)



Operations generated net cash of R470.2 million in FY16 compared to R536.9 million in FY15 after taking net finance cost of R19.4 million (FY15: R18.4 million) into account. The decrease in operational cash was as a result of the poor operational performance at Vaalkrantz and the effect of Pit 2 at Vanggatfontein referred to above.

Cash invested in investing activities decreased from R508.9 million in FY15 to R404.4 million in FY16. The decrease in investing activities mainly relates to:

- the year-on-year decrease in capital spend at Vanggatfontein of R39.8 million, (FY15 included the construction of the Vanggatfontein filter press plant of R34.8 million) and R10.9 million at the Vaalkrantz operation;
- the year-on-year decrease in capital spend on intangible assets of R11.5 million, mainly relating to the implementation of the ERP system of R5.9 million in FY15; and
- the group liquidated R20.8 million of its restricted investments during the year as disclosed under other non-current assets above.

Financing activities utilised cash of R89.5 million in FY16 compared to R25 million in FY15. This is mainly due to borrowings repaid of R80.4 million (FY15: R59.8 million) dividends paid to minority shareholders at subsidiary level of R7.5 million (FY15: R13.7 million) and the acquisition of the 26% minority shareholding in certain subsidiaries for R18.6 million (refer to note 23 to the financial statements for more disclosure). These were offset by and additional drawdown of R20 million on the Investec Bank Limited term facility.

Five-year financial performance

The five-year financial review includes both continuing and discontinued operations.

	FY16	FY15	FY14	FY13	FY12
Statement of profit or loss and other comprehensive income (Rm)					
Revenue	**1 208.9**	1 447.7	1 372.6	918.8	474.4
Gross profit/(loss)	**131.1**	203.5	218.7	(27.3)	14.6
EBITDA	**203.5**	479.1	498.8	87.7	242.9
Net (loss)/profit before taxation	**(299.4)**	(12.9)	102.4	(171.6)	105.9
EPS (cents)	**(99.7)**	(13.8)	30.3	(44.2)	75.2
HEPS (cents)	**(26.9)**	0.4	30.3	(30.2)	9.5
Statement of financial position (Rm)					
Property, plant and equipment	**694.9**	768.6	797.2	776.1	832.7
Intangible assets	**510.5**	716.4	700.7	424.1	423.9
Cash and cash equivalents	**48.9**	72.5	69.6	19.6	60.5
Total assets	**1 494.8**	1 877.4	1 871.9	1 429.4	1 488.3
Equity attributable to owners of the company	**438.8**	841.6	865.0	709.2	778.7
Total equity	**492.8**	838.3	916.2	686.0	803.3
Borrowings	**391.4**	361.1	393.6	284.8	297.3
Total liabilities	**1 002.0**	1 039.1	955.7	743.4	685.0
Statement of cash flows (Rm)					
Cash flow from operating activities	**470.2**	536.9	416.9	191.8	129.5
Cash flow from investing activities	**(404.4)**	(508.9)	(500.1)	(216.9)	(295.9)
Cash flow from financing activities	**(89.5)**	(25.0)	133.2	(15.8)	199.9
Share price performance					
– High (rand per share)	**1.95**	3.00	3.40	3.74	3.68
– Low (rand per share)	**0.34**	2.00	1.00	1.55	2.20
– At year-end (rand per share)	**0.56**	2.00	2.52	1.90	2.85
Volumes traded (million)	**24.2**	18.5	16.7	16.7	13.4
Number of ordinary shares in issue at year-end (million)	**292.0**	224.4	224.3	191.7	188.8
Financial statistics					
Liquidity ratios					
– Current ratio	**0.69**	0.88	0.93	0.51	0.85
– Quick ratio	**0.59**	0.72	0.80	0.37	0.75
Profitability					
– Gross profit/(loss) margin (%)	**11**	14	16	(3)	3
– EBITDA margin (%)	**17**	33	36	10	51
– Net (loss)/profit before taxation margin (%)	**(25)**	(1)	7	(19)	22
– Return on equity (%)	**(14)**	–	7	(8)	2
Debt leverage					
– Debt to equity ratio	**79**	43	43	42	37
– Net debt to equity ratio	**69**	34	35	39	29
– Interest cover	**1.03**	2.11	2.97	(4.06)	0.16
Other					
– NAV per share (cents per share)	**169**	373	408	358	426
– TNAV per share (cents per share)	**(6)**	54	96	137	201
– Market capitalisation at year-end (million)	**163.5**	448.7	565.3	364.2	537.9
– Effective taxation rate (%)	**(0.7)**	(457.5)	37.1	22.9	(5.8)

Current ratio » Current assets/current liabilities.
Quick ratio » Current assets less inventories divided by current liabilities.
Gross profit/(loss) margin » Gross profit/(loss) as a percentage of sales.
EBITDA margin » EBITDA as percentage of sales.
Net (loss)/profit before taxation margin » Net (loss)/profit before taxation divided by sales.
Return on equity » Headline earnings divided by ordinary shareholders' interest in capital and reserves.
Debt to equity ratio » Total debt divided by total equity. Total debt comprises long-term borrowings, overdrafts and short-term borrowings. Total equity comprises total shareholders' interest.
Net debt to equity ratio » Total debt less cash and cash equivalents divided by total equity. Total debt comprises long-term borrowings, overdrafts and short-term borrowings. Total equity comprises total shareholders' interest.
Interest cover » Profit before exceptional items and net finance costs divided by finance costs.
NAV per share » Total equity divided by total number of shares in issue at year-end. Total equity comprises total shareholders' interest.
TNAV per share » Total equity less intangible assets divided by total number of shares in issue at year-end. Total equity comprises total shareholders' interest.

Value created and distributed

The value added statement shows the wealth the group has created through mining, exploration, trading and investing operations and how it was disbursed among the group's stakeholders.

The information used to prepare this table has been extracted from the group's Annual Financial Statements and books of prime entry. It includes both continuing and discontinued operations.

Value added statement

	Group			
	31 March 2016 Rm	Wealth created %	31 March 2015 Rm	Wealth created %
Cash generated:				
Cash derived from sales and services	1 247.8		1 439.7	
Cash generated from increase in borrowings	20.0		5.5	
Income from investments and interest received	2.8		4.4	
Cash generated from the disposal of property plant and equipment	0.5		–	
Net cash withdrawn/(invested) in restricted cash and restricted investments	6.5		(13.2)	
Paid to suppliers for goods and services	(719.0)		(795.5)	
Cash value added	558.6	100	640.9	100
Cash utilised to:				
Paid to suppliers for mine development/infrastructure/exploration	411.3	74	495.7	77
Acquisition of additional investment in existing subsidiaries	18.6	3	–	–
Dividends paid to minorities on subsidiary level	7.5	1	13.7	2
Repayment of borrowings	80.4	14	59.8	9
Remuneration to employees and directors for services	65.5	12	65.5	10
Direct taxes (refunded)/paid to government	(1)	–	3.2	1
Cash disbursed among stakeholders	582.3	104	637.9	99
Cash (utilised)/generated in the group to maintain and develop operations	(23.7)	(4)	3.0	1

NOTES TO THE GROUP VALUE ADDED STATEMENT

	31 March 2016 Rm	Wealth created %	31 March 2015 Rm	Wealth created %
1. Tax contribution				
Direct taxes (as above)	(1)		3.2	
Value added taxes levied on purchases of goods and services	161.5		158.6	
	160.5		161.8	
2. Additional amounts collected by the group on behalf of government				
Value added tax and other duties charged on turnover	167.8		204.0	
Employees' tax deducted from remuneration paid	15.4		20.5	
Unemployment insurance fund	0.3		0.3	
	183.5		224.8	
3. Levies paid to government				
Rates and taxes paid to local authorities	0.3		0.2	
Royalties paid to government	4.7		5.6	
Unemployment insurance fund	0.3		0.3	
Skills development levy	0.6		0.7	
	5.9		6.8	

Our operating context

Our operating context

By unanimous account, coal will remain the primary source of electricity generation globally for the foreseeable future. Worldwide demand for electricity is forecast to rise 81% by 2035. Locally Eskom requires continuous coal supply as it generates approximately 92% of South Africa's electricity through its coal-fired power stations. It is estimated that around 2 billion tonnes of coal would still need to be secured between now and 2051, with the projected output over the next decade to be at 22Mtpa to be sourced from new coal suppliers.

However, the uncertainty created by Eskom's current position presents a risk given that Keaton Mining is heavily exposed to this anchor customer. Furthermore, the enforcement of tougher BEE requirements for Eskom suppliers poses a threat to the company. The Mining Charter Scorecard reached its term in 2014. A draft charter with more onerous targets has since been gazetted for comment. Unless revised downwards, the targets proposed in the draft charter are likely to pose a threat to both the licence to operate and the viability of mining operations in that it may be impossible to achieve these targets without eroding shareholder value. In addition, delays in regulatory processes and authorisations may lead to delays in the commissioning of some of our planned mines and developments, resulting in adverse impact on growth. There is also the possibility of tighter regulation of domestic coal prices and export volumes if government's proposal to declare coal as a strategic mineral is adopted. Please see a more detailed risk and opportunity analysis on pages 76 and 77.

Stakeholders

We are committed to communicating with all stakeholders openly, transparently and timeously. We seek to ensure regular engagement through diverse means including our website, bi-annual results presentations, Integrated Annual Report, SENS, one-on-one meetings and ongoing informal discussions.

Stakeholders

Key stakeholders in our group and the main issues that concern them are listed below:

Operational

DMR
Mineral Rights, SLP, mining works programmes and prospecting works programmes, environmental management plans and impact assessments, health and safety

Department of Water and Sanitation and Department of Environmental Affairs
IWUL application approvals, NEMA applications approvals, and compliance

Department of Labour
Employment equity, workmen's compensation, basic conditions of employment, fair and consistent labour practices

Host communities
SLPs, job creation, sustainable local economic development, impact on the environment, water supply, rehabilitation of sites on closure

JSE
Adherence to the JSE Listings Requirements and company legislation

SARS
Taxation, compliance, VAT

External

Investors
Sustainability, profitability, ROI (share price and dividends), cash generation, corporate governance and compliance, risk management, remuneration practices, growth prospects, accessibility of leadership, and succession planning

Funders
Solvency and liquidity, capital management, sustainability, credit rating, risk management

Contractors and suppliers
Timely payment, fair business practices, professional adjudication, vendor systems management

Customers
Security of supply at the committed volumes, prices and qualities, ensuring B-BBEE compliance in order to deliver on procurement targets

Internal

Employees
Job security, sustainability, market related remuneration, opportunities for personal growth and development, skills development, achievable incentive programmes, safe, healthy and suitable working environment

New issues in 2016

- Host community "business" formations "lobbying" for meaningful participation in the business value chain as service providers, and not as employees

Risks and opportunities

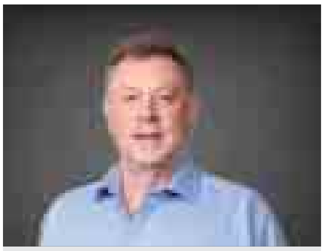
Risk management is a critical component of every employee's respective role and job description, and formal structures exist to govern actual risk management processes. The most significant risks faced by the group are indicated in the risk matrix below. For further detail on our risk management process please see the Risk Committee Report on page 91.

	1	2	3	4
Risk	**Unable to maintain** our social licence to operate	**Failure to recruit and retain** key staff with specialised skills	**Increasing operating costs** as a result of exchange rate fluctuations, administered prices and labour rates	**Unfavourable market** conditions and dependence on a single major customer
Mitigation/enhancement strategy	• Act in a responsible manner with regard to social and environmental matters • Meet and exceed obligations of the group's SLPs and the Mining Charter • Proactive involvement as a responsible corporate citizen in sustainable socio-economic development initiatives • Review legislative compliance for our entire legislative environment on a regular basis • Engage regularly with all stakeholders, in particular communities and local and national government	• Innovative recruitment initiatives and succession planning • Market-related remuneration • Short and long-term incentive schemes • Training and development programmes • Outsourced operating model, which reduces the requirement of in-house specialist skills • Appropriate policies and procedures governing all aspects of employment	• Off-take contracts for both domestic and export products and services include price adjustment mechanisms for cost increases based on various baskets of indices • Customer basket of indices aligned to combined supplier basket • Stringent procurement policies • Supplier increases limited to customer increases	• Multi-product company • Further diversification of products including sale of previously discarded materials • Limited exposure to export markets and commodity prices • Long term off-take contract with set delivery targets and price escalations • Maintain and manage relationships with customers
Status	• Revisions to the operations' SLPs submitted – Bursary, internship and work experience targets exceeded – Sharing of relevant information with host communities to foster harmonious relations – Available business opportunities within the business value chain advertised within host communities in support of local enterprise development. • No fines or sanctions relating to breaches recorded • The financial constraints at LME have made it impossible to deliver on LED projects • Stakeholder engagement is founded on regular meetings with the community, regulators and local government • A draft new Mining Charter with more onerous compliance targets has been gazetted for comment. If passed in its current form, this charter poses a significant threat to both the viability of the mines and the social licence to operate • Engagement with all stakeholders has been both maintained and enhanced	• Continuous engagement with staff contractors, unions and other worker representatives • Review of group's performance management system to ensure alignment with the company strategy • Staff turnover for the year was 39.3% (FY15: 19.4%). The year-on-year increase is substantially due to the restructuring of the contractor model at Vaalkrantz Colliery, necessitated by geological conditions and depletion of reserves which forced the closure of certain production adits • Continued enhancement and roll out of both internal and external training opportunities for own staff, contractor staff and community members • Continued audit of in-house and contractor skills requirements to ensure optimal application of the outsourced operating model • Continued review of compliance against legislative changes and industry best practice	• Outsourced operating model reduces fixed cost • In the process of aligning major customer basket of indices with supplier indices to address risk of reduced profitability over time • Outsourced operating model results in improved performance and aligns payment with performance • Multi-year wage agreements in place by major contractors	• Long-term off-take contracts for the majority of the group's existing production and new products • Increased demand for the group's slurry • Compliance with contractual off-take terms • Healthy relationships with customers

	5	6	7	8	9
Risk	**Fraud** and corruption	**Failure to raise growth and development capital** for South African mining operations	**Non-compliance,** in particular to providing a safe workplace and meeting our environmental obligations	**Industrial** action	**Failure to obtain and comply with integrated water** use licences
Mitigation/enhancement strategy	• Visible zero tolerance approach to fraud, corruption and bribery through applicable policies, awareness campaigns, reporting mechanisms and disciplinary procedures • Implementation of integrated IT system • Introduction of additional preventive controls • Regular review of effectiveness of contracts	• Operational and financial performance improves accessibility to bank funding	• Group Compliance Committee in place • Employees trained on policies and SOPs in place at all operations • Safety and Health Committee • SHE Manager at each operation • Corporate appointees' and external advisers' assistance with compliance • Compliance with EMPs • Reporting and monitoring of key performance indicators • Legal compliance audits conducted	• Procedures to be implemented in the event of industrial action are documented and reviewed frequently • Continuous engagement with unions and other worker representatives • Multiple contractors appointed to undertake specific activities at operations • Written SLAs in place between the company and contractors, requiring contractor employees to operate in terms of the company's policies and procedures, EMPs and SLPs	• Sophisticated water balance modelling implemented at Vanggatfontein to monitor IWUL licence conditions • Constant government liaison and consultation to facilitate and award approval of IWUL • Remedial measures to be implemented at Vaalkrantz once water management strategy and plan submitted to DWS is accepted
Status	• Charges of fraud laid against former Vaalkrantz employees with SAPS/ NPA investigation ongoing. Continued zero tolerance applied • Insurance claim submitted with claim settled by insurer for full value of insurance cover • Civil claims to be instituted • Implemented SAP ERP across the group	• Development capital requirement for the development of Moabsvelden – negotiations with financial institutions commenced • Increase cash reserves, for equity component of funding, targeted. Assisted by pending disposal of discontinued operations • Both equity and debt funding opportunities pursued to achieve the targeted debt-to-equity ratio and to reduce the group's cost of capital	• Good safety record • Training ongoing • Review of integrated safety management system and implementation of an integrated environmental management system • No monetary fines relating to breaches recorded • Approved EMPs in place • Mining Charter and social and labour plan annual reports consistently submitted to the DMR • Ongoing monitoring of the compliance status with respect to both the social and labour plan and Mining Charter scorecard	• During the year, various incidences of unprotected illegal industrial action were recorded at Vaalkrantz Colliery, all related to contractor personnel • Strengthened constructive relationships • Continuous monitoring of contractor compliance against SLAs	• Vanggatfontein awarded licence in 2015 • Moabsvelden IWUL application at an advanced stage at DWS • Vaalkrantz IWUL is being processed by DWS and is part of the backlog applications currently being addressed • A water management strategy and plan submitted to DWS has not been accepted as yet

Governance

Board of Directors



David Salter (57)

Non-Executive Chairman

BSc (Hons), PhD, FSAIMM

Appointed: *January 2008*

David has over 36 years' experience in international mineral technology, project development and mining executive management, and has previously served as the managing director of the Salene Group, JSE-listed Barplats Investments Limited and Eland Platinum Holdings Limited. David currently serves on the boards of TransAfrika Resources Limited and Tharisa plc.

Gerard Kemp (61)

Independent Non-Executive Director

MSc Mining Engineering

Appointed: *November 2012*

Gerard is currently the managing director of KCS Resources Limited. He was previously the CEO of Kaouat Iron Limited, a division of TransAfrika Resources. During his career, he has spearheaded several large, successful BEE transactions and brings significant experience in corporate finance and executive mine management to the Board. He has completed development programmes in labour relations and management at the University of South Africa's School of Leadership.

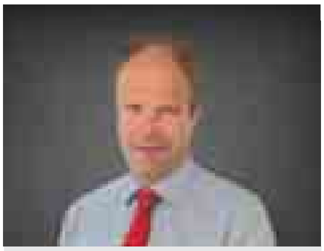
Lizwi Mtumtum (44)

Lead Independent Director

BA (Economics/Accounting)

Appointed: *March 2008*

Lizwi is executive chairman of Emangweni Investments Proprietary Limited, an investment holding company, and Emangweni Properties Proprietary Limited, a black-owned and managed property investment company. He previously held positions at Pangbourne Properties, Yard Capital (a BEE investment holding company), Nedbank and Nedcor. He serves as an independent non-executive of Synergy Income Fund Limited where he is also chairman of the audit and risk committee.



Meindert Witteveen (48)

Non-Executive Director

MSc (Business)

Appointed: *September 2014*

Meindert is head of coal and iron ore at Gunvor SA. He has 20 years' experience in dry bulk commodity markets, combining an understanding of physical coal, freight, metals and energy markets with knowledge of derivative trading. Before joining Gunvor in January 2013, Meindert was managing director at Black River, a Cargill subsidiary in commodity trading. He has previously also worked at Barclay's Capital and Credit Suisse.

Gia Mai (36)

Non-Executive Director

MA (Lausanne) CPA CFA (Switzerland)

Appointed: *July 2015*

Gia joined Gunvor to develop and head the corporate finance and investments team in 2008 and was later appointed Chief Investment Officer in 2015. He was previously with PwC for six years in auditing and transaction services. Gia replaced Jeroen Schurink on the Keaton Energy Board with effect from 1 July 2015.

Antoinette Sedibe (51)

Non-Executive Director

BA (Admin)

Appointed: *April 2006*

Antoinette is managing director of Andisa Capital and a co-founder of Rutendo Mining (Pty) Ltd and co-owner of Rutendo Holdings Proprietary Limited. After starting her career with Nedbank's graduate programme, she moved to AECI where she was a foreign exchange and money market dealer in the treasury department before moving to the internal audit department. She assisted in setting up Polifin Treasury (a Sasol and AECI joint venture), and also gained extensive management, financial markets and treasury operations experience as a treasurer at Standard Bank's treasury outsourcing operation, where she was later appointed a director. Antoinette was appointed as an executive director of Andisa Capital in 2003.

Paul Sadler (78)

Independent Non-Executive Director

CA(SA) Retired

Appointed: *October 2010*

Paul is a retired chartered accountant who has extensive auditing experience, much of which was in the mining sector, bringing valuable expertise to the Board. During his career he was involved with various mining companies including De Beers Group, Aquarius Platinum Limited and Barplats Mines Limited, at the latter serving as a member of the audit committee for two years. He was a partner at KPMG from 1980 until his retirement in 2003, after which he joined the Salene Group as a financial consultant.

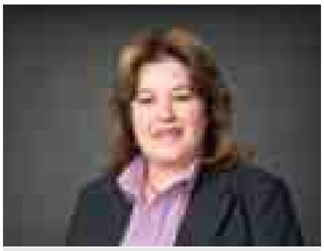
Phoevos Pouroulis (42)

Non-Executive Director

BSc (Business Science)

Appointed: *March 2007*

Phoevos is CEO of JSE-listed Tharisa plc, a chrome and platinum producer. He is a co-founder of Keaton Energy, which is one of a number of businesses locally and throughout Africa which he founded. He was instrumental in advising Chromex Mining plc on its establishment and was later appointed commercial director.

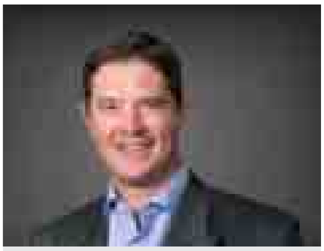


Mandi Glad (45)

Chief Executive Officer

Appointed: *May 2009*

Mandi is the only female CEO of a JSE-listed mining company and played an integral role in the establishment of Keaton Energy. She held the positions of marketing and business development director and operations director before being appointed as CEO in September 2012. Mandi is an entrepreneur with more than 20 years' experience owning and operating a wide range of businesses. She has extensive strategic industrial relations skills and a detailed knowledge and experience of implementing the MPRDA and related regulatory processes, gained through her involvement with HDSAs and women-led coal mining initiatives. She co-owns Rutendo Holdings and Rutendo Mining.



Jacques Rossouw (40)

Chief Financial Officer

BCom (Hons) Accounting, CA(SA)

Appointed: *December 2011*

Jacques has extensive experience in the mining industry. Before joining Keaton Energy, he worked as manager in both corporate reporting and in operational finance at Harmony Gold Mining Company Limited for three years. Prior to this, he was with PwC for six years where he completed his articles, completed a three-month working secondment to the USA and was appointed national middle market manager where he focused on risk management, audit methodology and best practice, learning and education, annual and financial reporting and budgeting for all middle market offices in South Africa.

Committee diagram key

- Member of the Risk Committee
- Member of the Social and Ethics Committee
- Member of the Audit Committee
- Member of the Nomination Committee
- Member of the SHE Committee
- Member of the Remuneration Committee

Corporate governance

At Keaton Energy, we recognise that sound corporate governance contributes to our operational and strategic success. We continue to apply high corporate governance standards to ensure the group's ongoing sustainability, to create long-term shareholder value and to protect the interests of all stakeholders.

Our Board is responsible for defining the group's governance and compliance framework. In doing so, the directors are committed to upholding the King III RAFT principles, namely responsibility, accountability, fairness and transparency.

Code of Ethics

Ethical business practice lies at the heart of good governance, and is dictated by sound individual judgement and personal integrity.

As the head of group governance, the Board strives to ensure that Keaton Energy conducts its business with integrity, leading by example to entrench a culture of ethical conduct. This is formalised in a Code of Ethics (the Code) (available at www.keatonenergy.co.za) which applies beyond the Board to all employees of the group and to contractors.

The Code is a guide to expected ethical conduct in all areas, appropriate policies in respect of the safeguarding of assets and information, securities transactions and disclosure, corporate opportunities, the use of software and employee relations. The Code sets out the group's values and practices over and above requirements of formal governance codes and legal requirements such as the King III Report and the Companies Act. Any contravention of the Code is reviewed by the Lead Independent Director.

The Social and Ethics Committee monitors adherence to the Code and to ethical conduct generally. As part of its responsibility, the Committee ensures that the company's ethics performance is assessed, monitored, reported and disclosed. It reviews cases of conflicts of interest, misconduct, fraud, or any other unethical activity by employees or the company. Further, the Committee reviews the Code annually and recommends it to the Audit Committee and the Board for approval.

Keaton Energy's whistle-blowing policy supports enforcement of the Code. It provides a mechanism for employees to voice concerns internally in a responsible and effective manner without fear of reprisal. Disclosures are reported and reviewed by the Audit Committee, but may be referred back to management should it be considered appropriate.

Keaton Energy does not make any contributions (monetary or in kind) to political parties or their representatives.

Our Board composition and governance framework

The Board composition is set out overleaf. We acknowledge the recommendations of King III for a majority of Independent Non-Executive Directors and will continue to take this into account with future appointments. In the interim, the composition is heavily weighted in favour of Non-Executive Directors given the number of shareholders represented on the Board.

The current size and composition of the Board is considered appropriate for the size of the company. In addition, the Non-Executive Directors have demonstrated the ability to act independently. The Chairman of the Board is not an Independent Non-Executive Director and as a compensating control, we have appointed a Lead Independent Director.

During the year, Non-Executive Director Jeroen Schurink resigned with effect from 30 June 2015 and Gia Mai was appointed in his stead with effect from 1 July 2015.

The Board

Responsibility

The Board retains full and effective control over the group and is responsible for providing strategic direction. The Board remains accountable for the performance of the group.

(The responsibilities of the Board are set out in full in its terms of reference, which is available at **www.keatonenergy.co.za**)

Members

Executive Directors	Non-Executive Directors	Independent Non-Executive Directors
Mandi Glad (CEO)	David Salter (Chairman)	Lizwi Mtumtum (Lead Independent Director)
Jacques Rossouw (CFO)	Phoevos Pouroulis	Gerard Kemp
	Antoinette Sedibe	Paul Sadler
	Jeroen Schurink*	
	Gia Mai»	
	Meindert Witteveen	

The Board formally evaluates the independence of the Non-Executive Directors annually in line with guidelines set out in the JSE Listings Requirements and King III.

** Resigned 30 June 2015.*
» Appointed 1 July 2015.

Retiring directors

One-third of the Board's Non-Executive Directors retire from office at each AGM in accordance with King III and the company's MoI. These are the directors who have served the longest since their last election. In addition, directors appointed since the previous AGM stand for re-election by shareholders at the AGM.

Accordingly, the following directors are standing for re-election by the shareholders at the upcoming AGM: David Salter, APE Sedibe and P Pouroulis.

Succession planning

The Nomination Committee conducts an annual review of the group's succession strategy for the positions of Chairman, CEO, Board and senior management and provides feedback to the Board.

Self-evaluation

The Board conducts an annual self-evaluation exercise and the individual directors complete self-evaluation assessments. The Company Secretary co-ordinates the formal reporting of the consolidated results after performing the collation. The overall rating was satisfactory; however, a few minor comments have been made which will be addressed going forward.

Corporate governance continued

Committees	Members	Number of Independent Non-Executive Directors
Audit Committee (for the full report including responsibilities see pages 98 and 99)	**Independent Non-Executive** Lizwi Mtumtum (Chair) Gerard Kemp Paul Sadler **By invitation** Mandi Glad (CEO) Jacques Rossouw (CFO) David Salter	3/3
Risk Committee (for the full report including responsibilities see page 91)	**Independent Non-Executive** Paul Sadler (Chair) Lizwi Mtumtum Gerard Kemp **Non-Executive** Phoevos Pouroulis David Salter Antoinette Sedibe Jeroen Schurink *(resigned 30 June 2015)* Meindert Witteveen Gia Mai *(appointed 1 July 2015)* **Executive** Mandi Glad (CEO) Jacques Rossouw (CFO)	3/10
Safety, Health and Environmental Committee (see safety and health, and environment on pages 30 to 36) The Committee's responsibilities include: • developing SHE frameworks, policies and guidelines; • reviewing the policies and performances against SHE policies; • monitoring key indicators on accidents and incidents; and • considering substantive national and international regulatory and technical developments in SHE management.	**Non-Executive** David Salter (Chair) **Independent Non-Executive** Gerard Kemp **Executive** Mandi Glad (CEO)	1/3
Social and Ethics Committee (for the full report including responsibilities see page 90)	**Independent Non-Executive** Lizwi Mtumtum **Non-Executive** Antoinette Sedibe (Chair) David Salter **Executive** Mandi Glad (CEO) Jacques Rossouw (CFO)	1/5*

** In June 2015, the size of the Committee was reduced to five members from the previous 10 members.*

Committees	Members	Number of Independent Non-Executive Directors
Nomination Committee The responsibilities of the Nomination Committee are set out in full in its terms of reference, which is available at www.keatonenergy.co.za. The primary objective of the Nomination Committee is to establish formal and transparent procedures for the appointment of directors of the company, to fill a vacancy on the Board. The formal procedures for the appointment of directors include the following: • Identify and participate in the selection of suitable candidates to be recommended to the Board for appointment as Executive and Non-Executive Directors. • Review results of background checks on potential candidates prior to their nomination. • Ensure that appointments of directors to the Board have been formalised through an agreement. The intention is to create a balance between Executive and Non-Executive Directors, with the necessary mix of skills and experience to enhance the effectiveness of the Board. The composition of the Nomination Committee complies with the JSE Listings Requirements.	**Non-Executive** David Salter (Chair) **Independent Non-Executive** Gerard Kemp Lizwi Mtumtum Paul Sadler	3/4
Remuneration Committee (for the full report including responsibilities see pages 86 to 89)	**Independent Non-Executive** Lizwi Mtumtum (Chair) Gerard Kemp **Non-Executive** David Salter **By invitation** Mandi Glad (CEO) Jacques Rossouw (CFO)	2/3

Board and Committee meeting attendance is set out on page 206.

Share dealings and conflicts of interest

Employees and directors are prohibited from dealing in the company's shares during price-sensitive periods. Employees are obliged, in terms of regulatory and governance requirements, to disclose any dealings in the company's shares by themselves or related parties to the Company Secretary. The clearance procedure for directors to deal in the company's shares is regulated by a share dealing policy.

Conflict of interest is dealt with in the Code of Ethics which includes refraining from conducting business with a relative. However, in cases of unavoidable conflict, the CEO or CFO are required to approve the transaction and the Company Secretary is informed thereof.

Application of King III

The company complies in all material respects with the application of King III. The full King III application is available on the website. Compliance with the principles in Chapter 2 is set out on pages 207 and 208.

Remuneration Committee Report

At Keaton Energy, our policy is to reward all employees fairly for their individual and collective contributions in executing the Keaton Energy business strategy and delivering on the group's performance targets. We remunerate all employees in a competitive manner to attract, motivate and retain individuals of the necessary calibre. We believe our reward strategy has a direct impact on company culture, employee behaviour and the company's sustainability, beyond merely impacting our operating expenditure and shaping our employee profile.

To achieve our remuneration objectives, the group's Remuneration Policy ensures a balance between the interests of employees and all other stakeholders as well as taking into account the dynamics of the market and the context in which we operate.

Remuneration Committee

During the year under review, the Remuneration Committee comprised Independent Non-Executive Directors Lizwi Mtumtum (Chairman) and Gerard Kemp, and Non-Executive Director and Board Chairman David Salter. The CEO and CFO are invited to attend but are excluded from any deliberations regarding their respective remuneration.

The Committee is governed by a detailed terms of reference which is reviewed annually. It meets at least four times a year (but more frequent meetings are arranged if required). Details of directors' attendance are set out on page 206.

The Committee is an independent and objective body, which monitors and strengthens the credibility of the group's executive and senior management remuneration system by linking remuneration to individual performance, the group's performance and market conditions. The Committee makes recommendations to the Board on remuneration packages and policies. These policies ensure that the interests of shareholders are protected and the financial well-being of the group is monitored. It further advises the Board on the remuneration of Non-Executive Directors, and also ensures that collective agreements reached between the employer and organised labour are fair and in line with the group's financial standing and market-related remuneration. To carry out its mandate, the Committee is entitled to obtain any information from any employee and external legal and/or other independent professional adviser if necessary, at the expense of the group.

The Committee is further responsible for devising a Remuneration Policy for the group. The Remuneration Policy is tabled at the AGM for a non-binding advisory vote by shareholders.

Pay mix

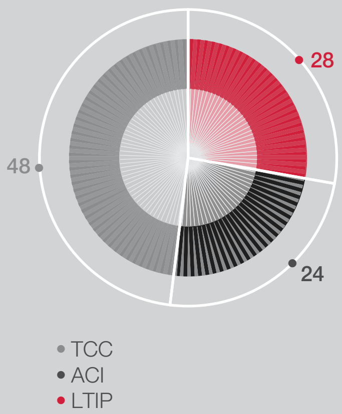
The Remuneration Committee ensures that the pay mix of guaranteed and performance-driven pay in cash, shares and other denominations, not only meets the group's needs, but also provides a true reflection of individual performance and group sustainability prospects.

The pay mix was designed to ensure that performance-driven pay for executives equals or exceeds guaranteed pay over time. It also ensures that, for the most senior executives, the orientation should be towards rewarding for long-term sustainable performance (share-based incentives) more so than operational performance (cash incentives).

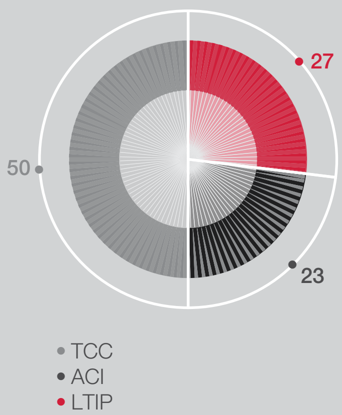
The pay mix policy addresses the major components of remuneration:

- Total cost to company (TCC) guaranteed pay.
- Variable pay for performance:
  - Short-term incentives in the form of annual cash incentives (ACIs).
  - Long-term (share-based) incentive plan (LTIP) expected reward.

Chief Executive Officer



Senior executive



Guaranteed pay (TCC)

The Remuneration Committee reviews and approves levels of guaranteed pay to ensure they are market-related and reflect the contribution of employees, particularly Executive Directors and senior management. Keaton Energy aims to remunerate at the market median, except where necessary to secure scarce or critical skills. In this instance, the group targets the upper quartile of the market or applies a specific premium to the median. Guaranteed pay is reviewed annually at the end of the calendar year. All other benefits, including pensions, other financial arrangements and, where applicable, benefits in kind are scrutinised to ensure they are justified, appropriately valued and suitably disclosed.

The group maintains an integrated pay line with pay levels allowing Keaton Energy to remain competitive and manage costs. The following steps are in place to ensure competitive pay levels:

- Establishing a target market for all job families and any particularly scarce or critical skills.
- Managing total employment cost in light of its significant contribution to overall operating costs.
- To achieve effective cost management, managing guaranteed pay levels in terms of TCC, which includes basic salary, allowances and company contributions to retirement funds and medical aid.
- Utilising various market data sources, published annually, that provide remuneration information in both a sectorial and a general sense.
- Additionally reviewing pay levels of top executive positions against national executive remuneration survey benchmarks.
- Targeting the market median percentile within market data.

Annual incentive pay

The offer and payment of annual incentive pay to executives and senior management is entirely at the discretion of the Remuneration Committee. For head office employees, an incentive pool is created from a weighted scorecard of group performance measures, and is then allocated to participants according to their respective individual performance based on performance scorecards. The group strives for a balance that reflects:

- incentive payments funded from incremental performance;
- efforts to secure human capital in a volatile and unpredictable business environment; and
- variable pay for performance that matches value contributions and aligns with best practice in the mining and resources market.

Full-time, on-mine employees at both collieries are eligible for quarterly cash bonuses if they meet stringent production and safety performance criteria. No production bonuses are paid to contractors.

LTIPs (share-based)

2007 share plan

In the previous LTIP, Executive Directors and employees of participating companies were eligible for a bonus award equal to the increase in the value of the notional shares between the date on which the Remuneration Committee approved the award to the date of its exercise. In normal circumstances, the bonus award would be applied exclusively to the subscription and/or purchase of the group's shares. The participant had to achieve performance targets as specified in the bonus award certificates, over a three-year performance cycle, and remain employed within the group over the minimum employment period.

Details of all unvested awards as well as awards exercised during the current year are disclosed in note 21 to the financial statements.

2013 share plan

At the 2013 AGM, the Keaton Energy 2013 share plan was approved. The plan includes a number of additional performance conditions designed to align the interests of participants with those of Keaton Energy's shareholders. It aims to reward shareholder alignment, retention of key talent and sustained performance in an increasingly difficult and volatile market.

Executives and selected senior managers of the company and its subsidiaries will be offered annually a weighted combination of:

- allocations of share appreciation rights (similar to the 2007 share plan);
- conditional awards of (full value) performance shares; and
- grants of (full value) restricted shares.

Share appreciation rights

Annual allocations of share appreciation rights will be available to be settled in equal thirds on the third, fourth and fifth anniversaries but need not be exercised until the seventh anniversary, at which time they must be exercised or lapse. On settlement, the value accruing to participants will be the appreciation of Keaton Energy's share price. Settlement may be in shares, which may be issued and allotted or acquired and transferred to participants, or via the settlement of a cash bonus of equivalent value.

Performance criteria are set out and if the specified performance targets are not met, the number of share appreciation rights vesting in relation to the full number allocated will be reduced. In the past, "bonus awards" (allocations) have been made using multiples of TCC to define the face values and, therefore, given the prevailing share (strike) price, the number of share options to be offered. This same methodology is to be retained for allocations of share appreciation rights, but the set multiple will be reduced in order to accommodate the parallel offer of two other elements, both forms of a full value share. Therefore, a form of appreciation unit will continue to be offered in the future but at a reduced level in terms of target reward. The balance is made up from a weighted combination of the other two elements described below.

Full value shares

When a participant exercises a share option or share appreciation right (or bonus award), the value that accrues to him/her is the positive gain (appreciation) of the underlying share above the strike price. Full value shares differ in that there is no strike price. The full value of the share accrues to

Remuneration Committee Report continued

a participant on vesting. As such, full value shares are not as reliant on share price growth, and not as sensitive to the volatility of share prices, the timing of offers and the external factors that may have more influence on a share price than that of the company's performance. Rather, they are more closely linked to company performance than unpredictable economic factors.

Performance share element

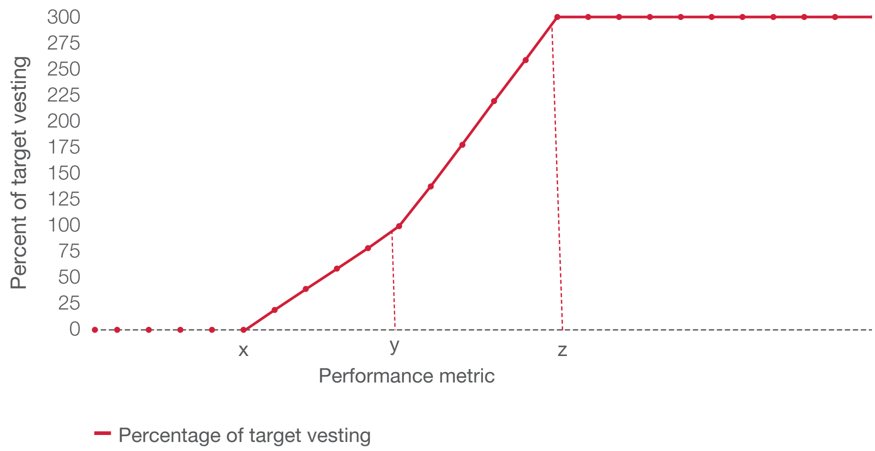
Executives and senior management will be awarded annual conditional performance shares. Performance shares will vest on the third anniversary of their award if the company has met specified performance criteria over the period. Essentially, the value per share that vests is the full value of the share (there is no strike price), but the number of shares that will vest will depend on the aforementioned.

The Board, through the Remuneration Committee, will dictate the performance criteria for each award and it is intended that, until there is a change in policy, vesting will be governed by an equally weighted combination of:

- the group's total shareholder return (TSR) in relation to a comparator group TSR; and
- a weighted scorecard of operational and strategic metrics, providing for safety, production, profitability and growth elements.

In selecting the comparator group with which to rank the company's TSR performance, it was deemed inappropriate to select only those few companies that directly compete with the group. Rather, the intent is to select a comparator group that represents an alternative portfolio of investments in small cap companies that the shareholders of Keaton Energy could have made, and which in aggregate are likely to be similarly affected by the same external influences. In the schematic above, performance vesting is illustrated but without defining the specific performance metrics by which vesting will be governed.

Performance vesting (%)



Performance vesting

The performance curve above illustrates the following relationships:

- If the group's performance over the three-year period is "y" (median or 3.5/5), then the targeted number (one-third of the maximum number) of performance shares awarded will vest.
- If the group's performance over the three-year period is "z" (upper quartile or 4.5/5) or better, then the maximum number (three times the targeted number) of performance shares awarded will vest.
- If the group's performance over the three-year period is "x" (lower quartile or 2.5/5) or worse, then all performance shares awarded will be forfeited.
- If the group's performance over the three-year period lies between any of the above points, then a pro-rated number of performance shares will vest.

No retesting against the performance criteria will be allowed, and any performance shares not vesting will be forfeited. Performance shares closely align the interests of shareholders with those of executives and senior management by rewarding superior shareholder and financial performance in the future. Performance shares will be awarded predominantly to executives and senior management who can influence and impact long-term strategic performance.

Restricted share element

On an annual basis, executives, senior managers and key talent may receive a grant of restricted shares. The value of restricted shares granted will be linked to the annual cash bonus scheme, in one or a combination of:

- Bonus matching: Matching, according to a specified ratio, the actual annual cash incentive accruing to the participating employee. Standard matching ratios will be set for each grade, based on: the on-target bonus percentage for the grade, the required balance within the offers of full value shares between performance shares and restricted shares. The standard matching ratio (although designed in relation to the on-target bonus) will be applied to the actual bonus achieved, irrespective of how this relates to on-target.
- Bonus deferral: An elective, prior year-end deferral of a portion (25%, 33% or 50%) of a participating employee's bonus calculation and its immediate conversion into restricted shares, with one-for-one matching with additional restricted shares.

As the individual is effectively opting to put an element at risk of a cash bonus that would otherwise accrue to him/her, this sub-element of the plan may be seen as a form of "co-investment". Restricted shares will vest after three years, subject only to continued employment. Restricted shares will be predominantly granted to high-performing executives and senior managers to assist in their retention. They provide for share-based retention of those employees who, through their performance on an annual basis, or their commitment to invest in the company's future, have demonstrated their value to the company.

Details of all unvested awards are disclosed in note 21 to the financial statements.

Performance management

There is an established formal framework for performance management. The performance management process occurs during October/November and April/May of each year.

Key performance areas (KPAs) are used to assess individual performance. They are derived from existing job descriptions and aligned to the overall performance measures of the group. KPAs include financial and non-financial measures and, where appropriate, are shared rather than individually owned. Personal skills and competencies are also included in individual scorecards. The scorecard elements are weighted and the overall score is the total of the employee's weighted scores.

Employees' development plans are also addressed through the performance management scorecard and process.

Review of 2016 packages

Directors

The remuneration packages for Executive Directors and the attendance fee structure for Non-Executive Directors are set out in note 36 of the financial statements.

The Board feels strongly about remunerating both Executive Directors and Non-Executive Directors fairly and responsibly for the responsibilities born by such directors.

The Non-Executive Directors do not have employment contracts with the group but are required to sign service agreements. These set out the duties and responsibilities expected of them as Non-Executive Directors. The remuneration of Non-Executive Directors is a matter for the executive members of the Board, and is approved by the company's shareholders at the AGM, acting pursuant to a recommendation of the Board.

Any proposed change in Non-Executive Directors' fees is put to shareholders for approval at the AGM . At the previous AGM, shareholders were presented with a resolution relating to an inflation-linked increase in fees as well as splitting the fee between an attendance fee and a retainer fee as recommended by King III. The resolution did not pass at the AGM held on 30 October 2015, and the same resolution will again be put to shareholders for approval at the upcoming AGM.

The group's policy on remuneration for Non-Executive Directors is that this should be:

- fee-based, comprising a risk portion and an attendance portion;
- market-related and comparable to companies of similar size and structure to the group and operating in the mining and resources sector; and
- not linked to share price or the group's performance.

The group pays for all travel and accommodation expenses incurred by directors to attend Board meetings and visits to group businesses. The group's Non-Executive Directors do not receive bonuses or share options, recognising that this can create potential conflicts of interest, which can impair the independence which Non-Executive Directors are expected to bring to bear in decision-making by the Board.

Contracts, severance and termination of Executive Directors are subject to the group's standard terms and conditions of employment where notice periods are six months. In line with the remuneration guidelines of King III, none of the executives have extended employment contracts, special termination benefits or balloon payments linked to any restraint of trade.

The group's policy when terminating the services of an individual is to remunerate according to the guidelines established by governing labour law and, more specifically, as per the regulations of the Basic Conditions of Employment Act prevailing at time of termination. The group aims to apply this policy to all employees, but it is subject to negotiation in special circumstances. For Executive Directors, unless termination of employment occurs as a result of the misconduct or poor performance or his/her resignation (other than under circumstances of constructive dismissal, death, injury, illness or retirement), they will be entitled to a severance payment equal to their individual annual TCC less any other payments made or becoming due as a result of the termination of employment.

Prescribed officers

The remuneration packages for prescribed officers are set out in note 7 of the financial statements.

Retirement and other benefits

Keaton Energy contributes to the Keaton Energy Administrative and Technical Services (KATS) Provident Fund with Liberty Life (Corporate Benefits) (Liberty), the Keaton Mining Provident Fund with Liberty and the Leeuw Mining and Exploration Provident and Pension Fund with Liberty, as part of certain employees' TCC. The rate of contribution is between 12% and 15%, based on the pensionable salary of these individuals. The value of contributions for each Executive Director appears in the summary of directors' remuneration and benefits. Executive Directors and employees also receive a death-in-service benefit. None of the Non-Executive Directors contributed to the funds during the year (FY15: nil). The group established a new Management Committee during the prior year, which operates according to the terms of reference relevant to umbrella funds.

Lizwi Mtumtum
Chairman of the Remuneration Committee

30 August 2016

Social and Ethics Committee Report

This Committee executes the duties assigned to it by the Companies Act as well as any additional duties assigned to it by the Board of Directors of Keaton Energy. Although management is tasked with the day-to-day operational sustainability of their respective areas of business, the Board remains ultimately responsible for group sustainability and has delegated certain duties in this regard to the Social and Ethics Committee.

A formal terms of reference has been adopted which guides the committee in ensuring that the group conducts its business in an ethical and properly governed manner, and in reviewing or developing policies, governance structures and practices for sustainability.

Details of the Committee composition are set out on page 84 and meeting attendance is set out on page 206.

The core purpose of the Committee is to regularly monitor the group's activities with regard to any relevant legislation, other legal requirements or prevailing codes of best practice.

During the reporting period, the Committee accordingly reviewed:

- progress in addressing the principles of the UN Global Compact and the OECD;
- performance in respect of B-BBEE as measured against the Mining Sector Charter scorecard;
- employment equity plans for the group;
- skills and other development programmes aimed at the educational development of employees;
- corporate social investment programmes;
- labour practices and policies; and
- Code of Ethics.

Mechanisms to encourage ethical behaviour such as the Code of Ethics, policies and whistle-blower hotline were confirmed as adequate by the Committee in the year.

No human rights incidents were reported. In South Africa, aspects such as prohibition of child labour, forced compulsory labour and discriminatory practices are monitored by the Department of Labour in addition to the Committee.

For detailed reports on matters in the purview of the Committee please see the relevant sections of this IAR on pages 56 to 61.

Antoinette Sedibe
Social and Ethics Committee Chair

30 August 2016

Risk Committee Report

The Board is cognisant of the risks faced by the group and the importance of effectively mitigating against them. Accordingly, a dedicated Risk Committee exists to specifically identify, review and monitor risks on a regular basis.

The Committee comprises the full Board and meets at least four times a year to review all risk management processes and outcomes. Meeting attendance is set out on page 206. Independent Non-Executive, Paul Sadler, chairs the Committee and reports formally to the Board at quarterly Board meetings. The Board feels strongly that risk management is the responsibility of every director. All directors are therefore members of this committee. Even though the Chairman of the Board is a member of the Risk Committee, he does not chair meetings of the Committee.

At each meeting, previously identified risks are monitored and potential risks are identified and reviewed for relevance and impact.

Among other matters, the Risk Committee is responsible for:

- overseeing the development and annual review of a policy and plan for risk management, to be approved by the Board;
- ensuring a systematic, documented, formal risk assessment is conducted at least once a year which assessment should be continually reviewed and updated;
- submitting an annual report to the Board on the effectiveness of the total risk management and assessment process and outcomes, specifying the company's key risks; and
- ensuring co-ordination with the Audit Committee that is responsible for the risk management process regarding internal financial controls, financial reporting and IT risks.

The Committee continuously reviews and monitors the risk registers of which there are three, one for each operating mine and one for head office. PwC, the group internal auditors facilitate the annual reviews and updating of risk registers.

Risk owners are appointed to monitor and manage specific risks and to report thereon to the group risk managers who are currently the relevant mine managers and the Company Secretary. Risk managers report any newly identified risks to the CEO who reports in detail on the risk management process to the Risk Committee on a quarterly basis. The group's risk appetite is set based on the ongoing risk evaluation and processes.

Risk management framework

The risk policy and plan were reviewed and approved during the June 2016 Board meeting where the Committee expressed its satisfaction with the effectiveness of the risk management process.

Responsibility:

- Board/Risk Committee
- CEO
- CFO
- Compliance and Risk Officer

See pages 76 and 77 for a table of the group's key risks, opportunities and mitigations.

Paul Sadler
Chairman Risk Committee

30 August 2016

Group and company Annual Financial Statements

Directors' responsibility for the Annual Financial Statements

The directors are responsible for the preparation and fair presentation of the group Annual Financial Statements and Annual Financial Statements of Keaton Energy Holdings Limited, comprising the statements of financial position at 31 March 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa. In addition, the directors are responsible for preparing the Directors' Report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the company and the group to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead. Refer to note 40 to the financial statements.

The auditor is responsible for reporting on whether the group financial statements and financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of group Annual Financial Statements and company Annual Financial Statements

The group Annual Financial Statements and company Annual Financial Statements of Keaton Energy Holdings Limited, as identified in the first paragraph, were approved by the Board of Directors on 5 August 2016 and signed by:

Mandi Glad
CEO
Authorised Director

Jacques Rossouw
CFO
Authorised Director

5 August 2016

Declaration by the Company Secretary

I certify, in accordance with section 88(2)(e) of the Companies Act of South Africa, that for the year ended 31 March 2016, Keaton Energy has lodged with the Companies and Intellectual Property Commission all such returns and notices as are required of a public company in terms of this Act, and that all such returns and notices appear to be true, correct and up to date.

Anelia Schutte-Bouwer
Company Secretary

5 August 2016

Directors' Report

Nature of business

Keaton Energy is a leading South African junior coal miner. Our overriding strategic objective is to drive sustainable growth in a safe manner while creating an attractive investment case with steady returns for our shareholders. We are in the energy business, focused on thermal and metallurgical coal, exploring opportunities to enter the power generation market. We have a total Coal Resource of 384.2Mt and ROM Coal Reserve of 84.3Mt under management.

Overview

Our two collieries, Vanggatfontein and Vaalkrantz, produce thermal coal for supply to Eskom as well as a range of specialist coals for the domestic and export metallurgical industries, namely 5 seam coal and premium anthracite for domestic metallurgical customers and anthracite exported to Brazil through offtake partner, Glencore.

Review of business and operations

The financial results for Keaton Energy are presented for the year ended 31 March 2016 and the comparative results are presented for the year ended 31 March 2015. The 31 March 2015 group results have been restated for the effects of the application of IFRS 5 *Non-current Assets Held-for-sale and Discontinued Operations* following management's decision to dispose of certain operations within the group (refer to note 10 to the financial statements). The statement of financial position and the statement of changes in equity for this period are not required to be restated.

The following commentary summarises the group's key activities during the year:

Safety

Zero harm remains a key focus for the group and safety is of paramount importance. The lost-time injury frequency rate (per 200 000 hours worked) was 0.14 at Vanggatfontein (FY15: 0.10) and 0.06 at Vaalkrantz (FY15: 0.22). Management commends all for this achievement and their adherence to safety standards and protocols.

Operational review

Vanggatfontein

Vanggatfontein sold 2 237 595t of washed 2 and 4 seam thermal coal to Eskom, only 2% down on last year's record sales of 2 278 761t. Sales of 5 seam metallurgical coal was 98 252t (FY15: 126 107t) in line with the geological model. Discard, slurry and B-grade sales were negligible.

Vaalkrantz

Vaalkrantz operation was classified as a disposal group "held-for-sale" during the year and a sale process was initiated. In February 2016, KEH concluded an agreement with Bayete Energy Resources Proprietary Limited (BER) to dispose of its wholly owned subsidiaries Leeuw Mining and Exploration Proprietary Limited (LME) and Amalahle Exploration Proprietary Limited thereby exiting the group's exposure to anthracite operations and projects entirely. The Braakfontein thermal coal project, held by Leeuw Braakfontein Colliery Proprietary Limited (LBC), a wholly owned subsidiary of LME, was specifically excluded from the transaction. LBC, which will be unbundled from LME, will become a direct wholly owned subsidiary of KEH. Post-year-end, Vaalkrantz Colliery was placed on care and maintenance notwithstanding continuous efforts by both LME and BER to minimise the losses exacerbated by the ongoing global decline in coal prices, *force majeure* declared on LME by its biggest customer and the unavailability of water due to the continued drought in the region. LME and BER's associated operating company Witbank Mineral Resources Proprietary Limited jointly decided to place Vaalkrantz Colliery on care and maintenance with effect from 1 May 2016. LME embarked on a section 189A process for the retrenchment of all employees during April 2016 which was finalised and became effective on 31 May 2016. Coal sales for the year were 45 556t domestic (FY15: 142 176t), 70 600t export (FY15: 138 300t) and 185 799t high ash (FY15: 114 974t).

Group financial performance

Group revenue from continuing operations decreased by 13%, from R1 181.1 million in FY15 to R1 032.1 million in FY16. The decrease was mainly as a result of a 36% decrease in transport revenue as a result of reduced transport rates from Eskom and shorter delivery distances. This, however, resulted in a decrease of 36% in transport costs paid to suppliers referred to below. In addition, coal sales at Vanggatfontein decreased overall by 4%.

Cost of sales decreased by 10% from R968.9 million in FY15 to R868.8 million in FY16. The decrease is mainly attributable to a decrease in transport costs of R103.2 million and a decrease in waste volumes mined at Vanggatfontein of 7%. Pleasingly the strip ratio achieved at Vanggatfontein, excluding rehandle of waste dumps and spoils, decreased to 2.8 from 2.9 in FY15. Fuel costs of R89.5 million were substantially lower when compared to the prior year of R122.7 million, due to lower volumes mined as well as a decrease in diesel prices. The remaining cash cost components included in cost of sales were in line with budget and that of the prior year and again reflects the group's continued focus in keeping costs under control.

The gross profit of R163.3 million or 16% of revenue decreased slightly year-on-year mainly as a result of the decrease in sales at Vanggatfontein. In addition, management took the decision in the second half of the financial year to accelerate mining of Pit 2 in order to minimise rehandling of future life of mine overburden and consequently reduce future cash outflow. Unfortunately coal qualities and planned yield in the last remaining cuts decreased significantly to that experienced previously in Pit 2. This not only resulted in a decrease in the expected cash generated from these last cuts but also resulted in accelerated depreciation.

Included in other income for FY16 is a credit of R37.5 million relating to the reversal of the Megacube Mining Proprietary Limited (Megacube) liability previously included under trade and other payables. Refer to note 41 to the financial statements for additional disclosure regarding this matter.

Directors' Report continued

The increase in mining and related expenses relates to a once-off impairment charge of R159.2 million recorded for the LBC project as disclosed in note 14 to the financial statements. To date the LBC project was evaluated on the basis of both an export and domestic thermal coal operation. Continued depressed export coal pricing and a bleak medium-term outlook on the Richards Bay API4 index has had a material impact on the economics of the project. We continue to evaluate alternative feasible options around an exclusive domestic supply project.

The remaining mining and related expenses were in line with budget and that of the prior year.

The increase in administrative expenses relates to the once-off initial recognition of a financial liability at fair value of R66.9 million and the derecognition of the deferred income liability of R5.4 million as reported in FY15. During FY14 the group entered into a pre-offtake finance arrangement with Gunvor SA, a fellow subsidiary of the group's largest shareholder Plusbay Limited, a wholly owned subsidiary of Gunvor Group Limited, for the supply of 600 000 tonnes of coal to be delivered from the group's Moabsvelden Project over a 22-month period from 1 January 2015 to 31 October 2016 in return for a prepayment of USD4 million. In terms of the agreement the group had to deliver the first coal volumes to Gunvor SA by latest 31 December 2015 from Moabsvelden. The group was unable to achieve this target as the development of Moabsvelden is still being delayed by the award of an integrated water use licence (IWUL) by the Department of Water and Sanitation despite every effort by the group to obtain same. The group applied for the IWUL in 2014 when it acquired the project through the acquisition of Xceed Resources Limited. As a result of not being able to supply first coal by 31 December 2015 to Gunvor SA, this breach resulted in the derecognition of the deferred income liability and the recognition of the financial liability. For more detailed disclosure refer to note 24 to the financial statements.

Other than the above, administrative expenses were in line with budget and that of the prior year.

The group net loss for the year was R297.3 million compared to a net loss of R71.9 million in FY15, mainly as a result of the once-off charges referred to above. Consequently, group headline earnings per share declined to a loss of 26.9 cents per share from 0.4 cents per share.

Operations generated net cash of R470.2 million in FY16 compared to R536.9 million in FY15 after taking net finance cost of R19.4 million (FY15: R18.4 million) into account. The decrease in operational cash was as a result of the poor operational performance at Vaalkrantz, and the effect of Pit 2 at Vanggatfontein referred to above.

Cash invested in investing activities decreased from R508.9 million in FY15 to R404.4 million in FY16. The decrease in investing activities relates mainly to the year-on-year decrease in capital spend at Vanggatfontein of R39.8 million (FY15 included the construction of the Vanggatfontein filter press plant of R34.8 million) and R10.9 million at the Vaalkrantz operation. Group capital spend on intangible assets also decreased year-on-year by R11.5 million, mainly relating to the implementation of the Enterprise Resource Planning (ERP) system of R5.9 million in FY15. The group further liquidated R20.8 million of its restricted investments during the year as a result of an overfunded position.

Financing activities utilised cash of R89.5 million in FY16 compared to R25 million in FY15. This is mainly due to borrowings repaid of R80.4 million (FY15: R59.8 million), dividends paid to minority shareholders at subsidiary level of R7.5 million (FY15: R13.7 million) and the acquisition of the 26% minority shareholding in certain subsidiaries of R18.6 million (refer to note 23 to the financial statements for more disclosure). These were offset by an additional drawdown of R20 million on the Investec Bank Limited term facility.

Going concern

At 31 March 2016 the company and group had adequate funding resources to continue to operate for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. Refer to note 40 to the financial statements for additional disclosure.

Projects

Moabsvelden remains our short-term growth priority. The initiation of construction of this expansion to Vanggatfontein awaits the grant of its IWUL and the conclusion of a Coal Supply Agreement (CSA) with Eskom. Moabsvelden will essentially be operated as a satellite pit to Vanggatfontein with similar ROM stripping ratios to Vanggatfontein. ROM will be transported to the Vanggatfontein Colliery site where a new CHPP is planned to process the Moabsvelden feed. Once the IWUL and CSA processes are concluded, mine construction will take approximately 12 months to complete.

Coal Resource and Coal Reserve statement

Other than normal coal depletion as a result of mining activities during the 12 months to 31 March 2016, Coal Reserves at Vanggatfontein Colliery reduced by an additional 2.2% and Coal Resources by 4.7% due to slightly lower recovery, fringe peripherals near wetlands not mined as well as pillars left for safety reasons. Vaalkrantz Colliery was placed on care and maintenance during 2016 and as a result the previously reported Coal Reserve estimate was withdrawn. The previously reported ROM Coal Reserve estimate reported for Vaalkrantz accounted for only 2.2% of the total group ROM Coal Reserve. An updated Resource and Reserve Statement for the group is expected to be released before the end of September 2016 as part of the Integrated Annual Report and will be available on the company's website at www.keatonenergy.co.za.

Stated capital

Authorised stated capital: 750 000 000 (FY15: 750 000 000) ordinary shares with no par value. Issued stated capital: 291 994 256 (FY15: 224 442 642) ordinary shares with no par value.

Directorate

Gunvor SA, the group's largest shareholder, changed its nominated directors during the year. Jeroen Schurink resigned with effect from 30 June 2015 and Gia Mai, Gunvor SA Chief Investment Officer, was appointed as Non-Executive Director effective 1 July 2015. The Board thanks Mr Schurink for his contribution to the company.

The directors that held office at year-end are set out below:

Name and nationality (South African, unless otherwise stated)	Position	Independent
JD Salter (British)	Non-Executive Chairman	No
LX Mtumtum (Lead Independent Director)	Non-Executive Director	Yes
OP Sadler	Non-Executive Director	Yes
P Pouroulis (South African/Cypriot)	Non-Executive Director	No
APE Sedibe	Non-Executive Director	No
GH Kemp	Non-Executive Director	Yes
MT Witteveen (Dutch)	Non-Executive Director	No
HG Mai (Swiss)	Non-Executive Director	No
AB Glad	Executive Director	No
J Rossouw	Executive Director	No

Changes to roles and responsibilities

During FY16, the Board approved a reduction of five members to the Social and Ethics Committee. The Committee now consists of APE Sedibe (Chairman), LX Mtumtum, Dr JD Salter, J Rossouw and AB Glad.

Auditors

At the forthcoming AGM, shareholders will be requested to reappoint KPMG Inc. as auditors of the company and to hold office for the ensuing year until the conclusion of the next AGM. The designated partner will not be required to rotate as he has not yet reached the five-year rotational requirement.

Company Secretary

Mrs A Schutte-Bouwer serves as the Company Secretary. Her contact details are the same as the company's registered address given below:

Registered address

Ground Floor
Eland House
The Braes
3 Eaton Avenue
Bryanston
2191

Directors' interest in stated capital

Director	Nature of interest	Number of ordinary shares	Percentage of issued stated capital at 31 March
31 March 2016			
P Pouroulis[(1)]	**Indirect, beneficial**	**43 738 428**	**14.98**
JD Salter[(2)]	**Indirect, beneficial**	**2 450 000**	**0.84**
APE Sedibe[(1)]	**Indirect, beneficial**	**35 669 897**	**12.22**
AB Glad	**Indirect, beneficial**	**34 271 077**	**11.74**
AB Glad	**Direct, beneficial**	**68 000**	**0.02**
OP Sadler[(1)]	**Direct, beneficial**	**114 285**	**0.04**
J Rossouw	**Direct, beneficial**	**50 000**	**0.02**
		116 361 687	**39.86**
31 March 2015			
P Pouroulis[(1)]	Indirect, beneficial	43 738 428	19.49
JD Salter[(2)]	Indirect, beneficial	2 450 000	1.09
APE Sedibe[(1)]	Indirect, beneficial	3 166 723	1.41
AB Glad	Indirect, beneficial	3 042 537	1.36
OP Sadler[(1)]	Direct, beneficial	114 285	0.05
		52 511 973	23.40

[(1)] *Non-Executive Director.*
[(2)] *Non-Executive Chairman.*

There has been no material change in the directors' interest in the stated capital of the company between the end of the financial year and the date of approval of the Annual Financial Statements.

Report of the Audit Committee

We are pleased to present our report for the financial year ended 31 March 2016.

The main purpose of the Committee as provided for in the Companies Act, 71 of 2008 includes among others, the following responsibilities:

- To assist the Board in discharging its duties on safeguarding assets.
- To monitor the operation of an adequate system of internal controls and control processes.
- To monitor the preparation of accurate financial reporting and financial statements in compliance with all applicable legal and corporate governance requirements and accounting standards.

The internal and external auditors have unrestricted access to the Chairman of the Audit Committee.

Composition and meeting attendance

The Committee is chaired by Lead Independent Non-Executive Director, Lizwi Mtumtum, and further consists of two Independent Non-Executive Directors, Gerard Kemp and Paul Sadler. A short *curriculum vitae* for each of these directors has been set out below, demonstrating their suitable skills and experience.

LX Mtumtum	OP Sadler	GH Kemp
BA (Economics/Accounting)	Retired CA(SA)	MSc Mining Engineering
Lizwi is executive chairman of Emangweni Investments Proprietary Limited, an investment holding company, and Emangweni Properties Proprietary Limited, a black-owned and managed property investment company. He previously held positions at Pangbourne Properties, Yard Capital (a BEE investment holding company), Nedbank and Nedcor. He serves as an independent non-executive of Synergy Income Fund Limited where he is also chairman of the Audit and Risk Committee.	Paul is a retired chartered accountant who has extensive auditing experience, much of which was in the mining sector, bringing valuable expertise to the Board. During his career he was involved with various mining companies including De Beers Group, Aquarius Platinum Limited and Barplats Mines Limited, at the latter serving as a member of the Audit Committee for two years. He was a partner at KPMG from 1980 until his retirement in 2003, after which he joined the Salene Group as a financial consultant.	Gerard is currently the managing director of KCS Resources Limited. He was previously the CEO of Kaouat Iron Limited, a division of TransAfrika Resources. During his career he has spearheaded several large, successful BEE transactions and brings significant experience in corporate finance and executive mine management to the Board. He has completed development programmes in labour relations and management at the University of South Africa's School of Leadership.

The Committee meets at least four times a year as per its terms of reference. The Chairman of the Board, CEO, CFO, internal auditor, external auditor and other assurance providers attend meetings by invitation only.

During the year four meetings were held. Details of Committee members' attendance are as follows:

LX Mtumtum	OP Sadler	GH Kemp
4(4)	4(4)	4(4)

Terms of reference

The Committee has adopted formal terms of reference approved by the Board, which were reviewed during the year ended 31 March 2016. The Committee has conducted its affairs in compliance with its terms of reference and has discharged its responsibilities contained therein.

Statutory roles and responsibilities

External audit

The Committee has satisfied itself that KPMG Inc. and Mr Willem Pretorius, the designated auditor, are independent of the company, which included consideration of previous appointments of the auditor, the extent of other work undertaken by the auditor for the company, and compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Assurance was given by the auditor that internal governance processes within the audit firm support and demonstrate its claim to independence. The Committee ensured that the appointment of the auditor complied with all legislation relating to the appointment of auditors.

The Committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the financial year ending 31 March 2016.

There is a formal procedure that governs the process whereby the auditor is considered for non-audit services: the Committee approves the non-audit services by the external auditor and the nature and extent of non-audit services that the external auditor may provide in terms of the agreed pre-approved policy. This policy stipulates, *inter alia*, that specific non-audit services must be pre-approved by the Committee before such work is carried out by the auditor to ensure that the auditor's independence is not compromised.

Annual Financial Statements
The Committee has reviewed the accounting policies and the Annual Financial Statements of the group and company and is satisfied that they are appropriate and comply with International Financial Reporting Standards.

The Committee recommended the Annual Financial Statements for the year ended 31 March 2016, for approval, to the Board. The Board has subsequently approved the Annual Financial Statements, which will be open for discussion at the forthcoming AGM. The Committee is in the process of reviewing the Integrated Annual Report and the notice of Annual General Meeting in order to recommend it to the Board, for approval.

Internal financial controls
The company's internal auditors performed an assessment on the effectiveness of the company's system of internal control and risk management, including an ongoing assessment of internal financial controls. In terms of the internal auditors' written assessment, no weaknesses in financial controls (design, implementation or execution), that are considered material and that have resulted in actual material financial loss, fraud or material errors were identified for the financial year ended 31 March 2016. The assessment by the internal auditors forms the basis for the Committee's recommendation in this regard to the Board, in order for the Board to report thereon.

IT risk
The Committee views IT governance as a crucial element of the business and considered whether IT risks were adequately addressed. The Committee is satisfied that adequate controls were in place.

Delegated roles and responsibilities
Integrated reporting
The Committee fulfils an oversight role regarding the company's Integrated Annual Report and the reporting process. The Committee considered the company's sustainability information and assessed its consistency with operational and other information known to Committee members and with the Annual Financial Statements. It is satisfied that the sustainability information is reliable and consistent with the financial results and has accordingly made a recommendation to the Board.

Going concern
The Committee has reviewed a documented assessment, including key assumptions prepared by management, of the going-concern status of the group and company and has accordingly made a recommendation to the Board. The Board's statement on the going-concern status of the group and company, as supported by the Committee, is set out in the directors' report.

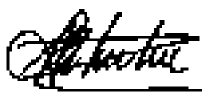
Internal audit
The Committee is responsible for ensuring that the company's internal audit function is independent and has the necessary resources, standing and authority to enable it to discharge its duties. Further, the Committee oversees co-operation between the internal and external auditors, and serves as a link between the Board and these functions.

The internal audit function is outsourced to PwC. The internal audit's annual plan including the internal audit charter was approved by the Committee. The Committee is responsible for the assessment of the performance of the internal audit function, which was duly assessed. During the year, the Committee met with both the external auditors and internal auditors without management being present. To the best of the Committee's knowledge the group has complied with all relevant and material legal, regulatory or other responsibilities.

Evaluation
The Committee members were all satisfied with the functioning of the Audit Committee. The Board was satisfied that the Committee members collectively have sufficient academic qualifications or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs and human resource management as required by section 94(5) of the Companies Act, read with Regulation 42.

Based on recommendation from the Nomination Committee, the Board recommends that the following individuals stand for re-election at the upcoming AGM:
- LX Mtumtum as a member and Chairman of the Audit Committee;
- OP Sadler as a member of the Audit Committee; and
- GH Kemp as a member of the Audit Committee.

In terms of the Companies Act, King III and JSE Listings Requirements, the Committee has considered and satisfied itself of the appropriateness of the expertise and experience of the CFO, Jacques Rossouw.



Lizwi Mtumtum
Audit Committee Chair

5 August 2016

Independent Auditor's Report

To the shareholders of Keaton Energy Holdings Limited

Report on the financial statements

We have audited the group financial statements and financial statements of Keaton Energy Holdings Limited, which comprise the statements of financial position at 31 March 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 102 to 187.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Keaton Energy Holdings Limited at 31 March 2016, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2016, we have read the Declaration by the Company Secretary, the Directors' Report and the Report of the Audit Committee for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in *Government Gazette Number 39475* dated 4 December 2015, we report that KPMG Inc. has been the auditor of Keaton Energy Holdings Limited for nine years.

KPMG Inc.
Registered Auditor

Per WS Pretorius
Chartered Accountant (SA)
Registered Auditor
Director
11 August 2016

KPMG Hillside
Corner of Hillside Street and Klarinet Road
Lynnwood
Pretoria
0081

Statements of profit or loss and other comprehensive income

for the year ended 31 March 2016

	Notes	Group Year ended 31 March 2016 R	Group Year ended 31 March 2015 (Restated)* R	Company Year ended 31 March 2016 R	Company Year ended 31 March 2015 R
CONTINUING OPERATIONS					
Revenue	4	**1 032 079 534**	1 181 054 551	**130 081 591**	144 701 219
Cost of sales	5	**(868 776 745)**	(968 938 863)	**(5 153 657)**	(3 964 493)
Gross profit		**163 302 789**	212 115 688	**124 927 934**	140 736 726
Other income	6	**41 192 246**	11 335 914	**–**	–
Mining and related expenses	7	**(181 966 055)**	(21 140 910)	**–**	–
Administrative expenses	7	**(139 036 414)**	(75 002 334)	**(33 647 990)**	(40 803 610)
Impairment of interests in subsidiaries	13	**–**	–	**(260 528 225)**	(101 240 304)
Impairment of other receivables	18	**–**	–	**–**	(25 394 980)
Operating (loss)/profit before net finance (cost)/income	7	**(116 507 434)**	127 308 358	**(169 248 281)**	(26 702 168)
Net finance (cost)/income	8	**(54 159 822)**	(48 103 717)	**358 489**	575 870
Finance income		**4 045 902**	5 277 590	**482 761**	618 817
Finance cost		**(58 205 724)**	(53 381 307)	**(124 272)**	(42 947)
Net (loss)/profit before taxation		**(170 667 256)**	79 204 641	**(168 889 792)**	(26 126 298)
Income taxation credit/(expense)	9	**2 167 629**	(42 188 623)	**(3 658 989)**	1 673 176
Net (loss)/profit from continuing operations		**(168 499 627)**	37 016 018	**(172 548 781)**	(24 453 122)
DISCONTINUED OPERATIONS					
Loss from discontinued operations, net of taxation	10	**(128 776 357)**	(108 870 925)	**–**	–
Net loss for the year		**(297 275 984)**	(71 854 907)	**(172 548 781)**	(24 453 122)
Other comprehensive income					
Items that may be reclassified to profit or loss					
Foreign currency translation differences	22	**1 840 820**	(130 247)	**–**	–
Total comprehensive income		**(295 435 164)**	(71 985 154)	**(172 548 781)**	(24 453 122)
Net loss attributable to:					
Owners of the company		**(250 587 708)**	(31 028 870)		
Non-controlling interest		**(46 688 276)**	(40 826 037)		
		(297 275 984)	(71 854 907)		
Total comprehensive income attributable to:					
Owners of the company		**(248 746 888)**	(31 159 117)		
Non-controlling interest		**(46 688 276)**	(40 826 037)		
		(295 435 164)	(71 985 154)		
Earnings per share					
Basic earnings per share (cents)	11	**(99.7)**	(13.8)		
Diluted earnings per share (cents)	11	**(99.7)**	(13.8)		
Earnings per share – continuing operations					
Basic earnings per share (cents)	11	**(62.2)**	12.6		
Diluted earnings per share (cents)	11	**(62.2)**	12.4		

The accompanying notes are an integral part of these financial statements.

* *The 31 March 2015 group results have been restated for the effects of the application of IFRS 5* Non-current Assets Held-for-sale and Discontinued Operations *following management's decision to dispose of certain operations within the group (refer to note 10). The statement of financial position and the statement of changes in equity for this period are not required to be restated.*

Statements of financial position
at 31 March 2016

		Group		Company	
	Notes	At 31 March 2016 R	At 31 March 2015 R	At 31 March 2016 R	At 31 March 2015 R
ASSETS					
Property, plant and equipment	12	668 297 215	768 617 910	–	–
Interest in subsidiary companies	13	–	–	949 640 977	957 272 188
Intangible assets	14	504 568 494	716 434 140	–	–
Investments and loans		5 221 048	5 216 499	–	–
Restricted cash	15.1	7 423 204	10 780 613	1 418 581	1 418 581
Restricted investments	16	35 225 869	68 305 506	–	–
Total non-current assets		1 220 735 830	1 569 354 668	951 059 558	958 690 769
Restricted cash		4 167 503	–	–	–
Inventory	17	36 650 671	54 110 477	–	–
Trade and other receivables	18	105 148 757	179 455 807	2 650 245	1 085 017
Taxation		916 892	1 901 772	–	4 616
Cash and cash equivalents	15.2	43 379 396	72 546 393	800 698	2 160 501
Assets held-for-sale	13 and 19	83 812 338	–	–	–
Total current assets		274 075 557	308 014 449	3 450 943	3 250 134
Total assets		1 494 811 387	1 877 369 117	954 510 501	961 940 903
EQUITY					
Stated capital	20	850 050 607	692 928 553	850 370 549	693 248 495
Share-based payment reserve	21	33 664 877	26 546 123	22 955 948	18 656 503
Other reserves	22	20 925 337	19 084 517	18 859 198	18 859 198
(Accumulated loss)/retained earnings		(465 810 406)	103 072 976	34 157 304	206 706 085
Total equity attributable to owners of the company		438 830 415	841 632 169	926 342 999	937 470 281
Non-controlling interest	13 and 23	54 012 482	(3 374 543)	–	–
Total equity		492 842 897	838 257 626	926 342 999	937 470 281
LIABILITIES					
Borrowings	24	189 605 397	251 740 913	–	–
Financial liabilities	25.1	–	–	9 265 769	14 319 826
Mine closure and environmental rehabilitation provision	26	263 471 962	270 058 375	–	–
Vendor liability	27.1	30 225 541	31 768 646	–	–
Deferred taxation	28	124 275 448	129 179 335	1 426 397	503 666
Deferred income	24	–	5 417 691	–	–
Interest in subsidiary companies	13	–	–	2 873 043	–
Total non-current liabilities		607 578 348	688 164 960	13 565 209	14 823 492
Borrowings	24	201 682 303	109 375 308	–	–
Financial liabilities	25.2	–	67 816	5 054 057	5 054 057
Trade and other payables	29	106 183 447	216 843 420	6 816 594	4 593 073
Taxation		2 731 642	–	2 731 642	–
Provisions	27.2	–	24 659 987	–	–
Liabilities held-for-sale	19	83 792 750	–	–	–
Total current liabilities		394 390 142	350 946 531	14 602 293	9 647 130
Total equity and liabilities		1 494 811 387	1 877 369 117	954 510 501	961 940 903

The accompanying notes are an integral part of these financial statements.

Statements of changes in equity

for the year ended 31 March 2016

	Stated capital R	Share-based payment reserve R	Other reserves R	(Accu-mulated loss)/ retained earnings R	Total equity attributable to owners of the company R	Non-controlling interest (NCI) R	Total equity R
Notes	20	21	22			23	
Group							
Balance at 31 March 2014	692 928 553	18 788 161	19 214 764	134 101 846	865 033 324	51 183 265	916 216 589
Net loss for the year	–	–	–	(31 028 870)	(31 028 870)	(40 826 037)	(71 854 907)
Other comprehensive income for the year	–	–	(130 247)	–	(130 247)	–	(130 247)
Dividends[1]	–	–	–	–	–	(13 731 771)	(13 731 771)
Transactions with owners of the company recognised directly in equity							
Share-based payments	–	7 757 962	–	–	7 757 962	–	7 757 962
Balance at 31 March 2015	692 928 553	26 546 123	19 084 517	103 072 976	841 632 169	(3 374 543)	838 257 626
Net loss for the year	–	–	–	(250 587 708)	(250 587 708)	(46 688 276)	(297 275 984)
Other comprehensive income for the year	–	–	1 840 820	–	1 840 820	–	1 840 820
Dividends[1]	–	–	–	–	–	(7 532 912)	(7 532 912)
Transactions with owners of the company recognised directly in equity							
Ordinary shares issued	159 697 224	–	–	–	159 697 224	–	159 697 224
Share issue expenses	(2 575 170)	–	–	–	(2 575 170)	–	(2 575 170)
Share-based payments	–	7 118 754	–	–	7 118 754	–	7 118 754
Changes in ownership interest in subsidiaries[2]	–	–	–	(318 295 674)	(318 295 674)	111 608 213	(206 687 461)
Balance at 31 March 2016	850 050 607	33 664 877	20 925 337	(465 810 406)	438 830 415	54 012 482	492 842 897

[1] *On subsidiary level, Keaton Mining Proprietary Limited (Keaton Mining) declared and paid dividends of R29 million (2015: R52.8 million) to its shareholders during the year. The company held a 74% interest in Keaton Mining when these dividends were declared. On 13 November 2015, the company acquired the remaining 26% interest in Keaton Mining (refer to note 23).*

[2] *The premium paid for the non-controlling interests in Keaton Mining, Leeuw Mining and Exploration Proprietary Limited (LME), Amalahle Exploration Proprietary Limited (Amalahle) and Labohlano Trading 46 Proprietary Limited (Labohlano) was recorded as an adjustment against retained earnings in terms of IFRS 10* Consolidated Financial Statements, *due to the controlling interests of 74% held in these subsidiaries by the group prior to these transactions. Had the group not held a controlling interest in these subsidiaries, this premium would have been allocated to the relevant assets and liabilities, based on fair value, with the residual being allocated to goodwill. Refer to note 23 for additional information.*

Company

	Notes	Stated capital R	Share-based payment reserve R	Other reserves R	Retained earnings R	Total R
		20	21	22		
Balance at 31 March 2014		692 928 553	13 220 294	18 859 198	231 159 207	956 167 252
Total comprehensive income for the year		–	–	–	(24 453 122)	(24 453 122)
Transactions with owners of the company recognised directly in equity						
Shares issued for cash		319 942	–	–	–	319 942
Share-based payments		–	5 436 209	–	–	5 436 209
Balance at 31 March 2015		**693 248 495**	**18 656 503**	**18 859 198**	**206 706 085**	**937 470 281**
Total comprehensive income for the year		**–**	**–**	**–**	**(172 548 781)**	**(172 548 781)**
Transactions with owners of the company recognised directly in equity						
Ordinary shares issued		**159 697 224**	**–**	**–**	**–**	**159 697 224**
Share issue expenses		**(2 575 170)**	**–**	**–**	**–**	**(2 575 170)**
Share-based payments		**–**	**4 299 445**	**–**	**–**	**4 299 445**
Balance at 31 March 2016		**850 370 549**	**22 955 948**	**18 859 198**	**34 157 304**	**926 342 999**

Statements of cash flows

for the year ended 31 March 2016

	Notes	Group Year ended 31 March 2016 R	Group Year ended 31 March 2015 R	Company Year ended 31 March 2016 R	Company Year ended 31 March 2015 R
Cash flows from operating activities					
Cash generated from/(utilised in) operations	31.1	**488 585 626**	558 497 660	**30 251 216**	(16 421 241)
Interest received		**2 841 310**	4 419 200	**482 761**	618 817
Interest paid		**(22 223 278)**	(22 816 818)	**(124 272)**	(42 947)
Taxation received/(paid)	31.2	**980 264**	(3 182 464)	**–**	(197 947)
Dividends received		**–**	–	**21 439 825**	39 082 733
Net cash from operating activities		**470 183 922**	536 917 578	**52 049 530**	23 039 415
Cash flows from investing activities					
Increase in interest in subsidiary companies	31.3	**–**	–	**(50 834 163)**	(23 318 194)
Additions to property, plant and equipment to expand operations		**(405 543 629)**	(478 397 335)	**–**	–
Additions to intangible assets		**(5 792 583)**	(17 260 412)	**–**	–
Proceeds on disposal of property, plant and equipment		**528 445**	661	**–**	–
Investment in restricted investments		**(14 350 286)**	(13 225 813)	**–**	–
Withdrawal from restricted investments		**20 802 301**	–	**–**	–
Net cash from investing activities		**(404 355 752)**	(508 882 899)	**(50 834 163)**	(23 318 194)
Cash flows from financing activities					
Acquisition of additional interest in existing subsidiaries	18 and 23	**(18 595 257)**	–	**–**	–
Proceeds from the issue of shares		**–**	–	**–**	319 942
Payment of share issue expenses		**(2 575 170)**	–	**(2 575 170)**	–
Prepayment for coal offtake received		**–**	43 028 000	**–**	–
Borrowings repaid		**(80 435 912)**	(59 840 559)	**–**	–
Borrowings raised		**20 000 000**	5 500 000	**–**	–
Transaction costs paid relating to finance arrangements		**(350 000)**	–	**–**	–
Dividends paid		**(7 532 912)**	(13 731 771)	**–**	–
Net cash from financing activities		**(89 489 251)**	(25 044 330)	**(2 575 170)**	319 942
Net (decrease)/increase in cash and cash equivalents		**(23 661 081)**	2 990 349	**(1 359 803)**	41 163
Cash and cash equivalents at the beginning of the year		**72 546 393**	69 556 044	**2 160 501**	2 119 338
Cash and cash equivalents at the end of the year	15.2 and 19	**48 885 312**	72 546 393	**800 698**	2 160 501

Notes to the financial statements
for the year ended 31 March 2016

1 General information

Keaton Energy Holdings Limited (registration number: 2006/011090/06) (the company) and its subsidiaries (collectively Keaton or the group) are primarily involved in coal mining and related activities including exploration, extraction and processing of coal at its operations in the Republic of South Africa.

The company is a public company incorporated and domiciled in South Africa, with its registered office at Ground Floor, Eland House, The Braes, 3 Eaton Road, Bryanston, 2191.

The group and company financial statements were authorised for issue by the Board of Directors on 5 August 2016.

2 Accounting policies

The principal accounting policies applied in the preparation of the group and company financial statements are set out below. These policies have been consistently applied by group entities in all years presented, unless otherwise stated. These financial statements are presented in South African rand (R), which is the company's functional currency. All financial information presented has been rounded to the nearest rand.

Where reference is made in the basis of preparation to the group, it should be interpreted as being applied to the group and company as the context requires.

Basis of preparation

The financial statements of the group and company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), International Financial Reporting Interpretations Committee (IFRIC), the Companies Act of South Africa and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting pronouncements as issued by the Financial Reporting Standards Council. The financial statements have been prepared under the historical cost convention, except for the following material items in the statement of financial position:

- Non-derivative financial instruments at fair value through profit or loss are measured at fair value.
- Share-based payments at fair value.

The preparation of the financial statements in accordance with IFRS requires the group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. In particular, information about significant areas of estimation uncertainty or where a higher degree of judgement or complexity is involved in applying accounting are disclosed in note 3 to the accounting policies.

New standards, amendments to standards and interpretations to existing standards adopted by the group

None of the new standards, amendments to standards and interpretations to existing standards adopted by the group during the current financial year had a significant impact on the results of the group.

New standards, amendments to standards and interpretations to existing standards that are not yet effective and have not been early adopted

At the date of authorisation of these financial statements, the standards, amendments to standards and interpretations listed below were in issue but not yet effective. These standards and interpretations have not been early adopted by the group and management is currently evaluating the impact of these on the group. The group plans to adopt these standards, amendments to standards and interpretations, where applicable, on the dates when they become effective.

The effective dates given are for financial periods beginning on or after the given date.

- *Equity Method in Separate Financial Statements* (Amendments to IAS 27) (effective 1 April 2016)
  The amendments allow an entity to apply the equity method in its separate financial statements to account for its investments in subsidiaries, associates and joint ventures. These amendments are not expected to have a significant impact on the financial statements.

- *Disclosure Initiative* (Amendments to IAS 1) (effective 1 April 2016)
  The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The group and company are assessing the potential impact on the financial statements resulting from these amendments.

- Annual improvements to IFRS 2012 to 2014 cycle (effective 1 April 2016)
  The Board has made amendments to four standards. Except for the amendments to IFRS 5, the amendments will apply retrospectively. The group and company are assessing the potential impact on the financial statements resulting from these amendments.

- *Disclosure Initiative* (Amendments to IAS 7) (effective 1 April 2017)
  The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances for liabilities arising from financing activities. The group and company are assessing the potential impact on the financial statements resulting from these amendments.

Notes to the financial statements continued
for the year ended 31 March 2016

2 Accounting policies *(continued)*

- *Recognition of Deferred Tax Assets for Unrealised Losses* (Amendments to IAS 12) (effective 1 April 2017)

  The amendments provide additional guidance on the existence of deductible temporary differences, which depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

  The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognised.

  Guidance is provided where an entity may assume that it will recover an asset for more than its carrying amount, provided that there is sufficient evidence that it is probable that the entity will achieve this.

  Guidance is provided for deductible temporary differences related to unrealised losses that are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income of a specific type.

  The group and company are assessing the potential impact on the financial statements resulting from these amendments.

- IFRS 15 *Revenue from Contracts with Customers* (effective 1 April 2018)

  This standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC 31 *Revenue – Barter of Transactions Involving Advertising Services*.

  The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

  This new standard will most likely not have a significant impact on the group regarding the timing of when revenue is recognised and the amount of revenue recognised; however, extensive new disclosure will be required by the standard. The group is currently in the process of performing a more detailed assessment of the impact of this standard on the group and will provide more information in the year ending 31 March 2017 financial statements.

- IFRS 9 *Financial Instruments* (effective 1 April 2018)

  On 24 July 2014, the IASB issued the final IFRS 9 *Financial Instruments* standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

  This standard could have a significant impact on the group which will include changes in the measurement bases of the group's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model. The group is currently in the process of performing a more detailed assessment of the impact of this standard on the group and will provide more information in the financial statements for the year ending 31 March 2017.

- IFRS 16 *Leases* (effective 1 April 2019)

  IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer (lessee) and the supplier (lessor). IFRS 16 replaces the previous leases standard, IAS 17 *Leases*, and related interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors. The group and company are assessing the potential impact on the financial statements resulting from the application of IFRS 16.

Consolidation

(i) Asset acquisition

For an asset acquisition, the purchase price is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the acquisition date. Such a transaction or event does not give rise to goodwill.

(ii) Subsidiaries

Subsidiaries are entities controlled by the group. The group controls an entity when it 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 financial statements of subsidiaries are included in the group financial statements from the date on which control commences until the date on which control ceases. In the company financial statements, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration arrangements. Cost also includes directly attributable costs of the investment.

(iii) Loss of control

When the group loses control over the subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised income and expenses arising from intragroup transactions, are eliminated.

(v) Non-controlling interest (NCI)

NCI is measured at its proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments (where applicable) during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Foreign currency gains and losses are generally recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign operations

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated into rand at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into rand at the exchange rates at the dates of transactions.

Foreign currency differences are recognised in other comprehensive income (OCI) and accumulated in the foreign currency translation reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the group disposes of its interest in a subsidiary but retains control, the relevant proportion of the cumulative amount is reattributed to NCI.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, the foreign currency differences arising from such item form part of the net investment in the foreign operation. Accordingly, such differences are recognised in OCI and accumulated in the foreign currency translation reserve.

Property, plant and equipment

(i) Mining assets

Mining assets include mine development costs, assets under construction, plant and equipment and mine infrastructure and are initially recognised at cost, after which they are measured at cost less accumulated depreciation and impairment. Costs include expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. Mine development is derecognised when a formal decision is taken to close a pit, mainly when it becomes not economic to continue mining. Any loss realised on the derecognition of the asset is recognised in profit or loss.

At the group's surface mines, when it has been determined that a mineral property can be economically developed as a result of establishing proved and probable reserves, costs incurred to develop the property are capitalised as incurred until the mine is considered to have moved into the production phase. These costs include costs to further delineate the coal seam and remove overburden to initially expose the coal seams.

Stripping costs incurred during the production phase of the group's surface operations to remove overburden and expose the Coal Reserve are capitalised as a stripping activity asset only when:

(a) it is probable that the future economic benefits (improved access to the Coal Reserve) associated with the stripping activity will flow to the group;
(b) the group can identify the component of the Coal Reserve exposed by the stripping activity; and
(c) the costs relating to the stripping activity associated with that component can be measured reliably.

The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset (mine development). The stripping activity asset is initially measured at cost, being the accumulation of costs directly attributable to the stripping activity, plus an allocation of directly attributable overhead costs. The group identifies a component as the smallest measurable portion of the Coal Reserve within a pit, which the stripping activity provides direct access to and is usually identified through survey results. After initial recognition, the stripping activity asset is measured at cost less accumulated depreciation and accumulated impairment losses. The stripping activity asset is depreciated on a systematic basis, over the expected production life of the identified component of the Coal Reserve.

Notes to the financial statements continued

for the year ended 31 March 2016

2 Accounting policies *(continued)*

Property, plant and equipment *(continued)*

(i) Mining assets (continued)

At the group's underground mines, all costs incurred to develop the property, including costs to access specific coal seams or other areas of the underground mine, are capitalised to the extent that such costs will provide future economic benefits. These costs include the cost of building access ways, continuing development, ramps, initial box-cuts and other infrastructure development. These assets are depreciated on a systematic basis over the expected production life of the Coal Reserve.

Borrowing costs are capitalised to the extent that they are directly attributable to the acquisition and construction of qualifying assets. Qualifying assets are assets that take a substantial time to get ready for their intended use. These costs are capitalised until the asset moves into the production phase. Other borrowing costs are expensed. Where a depreciable asset is used in the construction or extension of a mine, the depreciation is capitalised against the mine's cost.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised when the costs can be reliably measured and if it is probable that the future economic benefits embodied within the component will flow to the group. The carrying amount of the replaced component, if any, is derecognised and charged to profit or loss. Maintenance, day-to-day servicing and repairs, which neither materially add to the value of assets nor appreciably prolong their useful lives, are charged to the statement of profit or loss.

(ii) Non-mining assets

Land is shown at cost and not depreciated. Other non-mining items of property, plant and equipment, which include buildings and leasehold improvements, plant and equipment, furniture and equipment, and other items (which include motor vehicles and computer equipment) are shown at cost less accumulated depreciation and accumulated impairment losses.

(iii) Depreciation

Depreciation of mining assets are computed principally by the units-of-production method based on estimated quantities of economically recoverable proved and probable reserves, which can be recovered in future from known mineral deposits. In most instances, proved and probable reserves provide the best indication of the useful life of the group's mines (and related assets). Depreciation of non-mining assets is calculated on a straight-line basis over the useful life of the asset.

(iv) Depreciation rates/useful lives of mining and non-mining assets

- Buildings: life of the mine.
- Plant and equipment: life of the mine (2015: straight-line method (between three and 10 years)).
- Mine infrastructure: the life of the mine.
- Mine development: the life of the mine.
- Vehicles: 20% per year.
- Computer equipment: 33.3% per year.
- Furniture and equipment: between 10% and 20% per year.
- Leasehold improvements on premises occupied under operating leases are written off over the term of the lease or its useful life if shorter.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date. At 31 March 2016, the depreciation method for plant and equipment was changed to the life of the mine as these assets are mining-related. Management considers this to be a more accurate method of depreciation as the assets are expected to be used over the life of the mine. Refer to note 12 for additional disclosure. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit or loss.

(v) Amortisation of mineral and surface use rights

Mineral interests associated with development and exploration phase mineral interests are not amortised until such time as the underlying property is converted to the production stage.

Intangible assets

Exploration and evaluation costs, including the costs of acquiring Prospecting Rights and directly attributable exploration expenditure, are capitalised as exploration and evaluation assets on a project-by-project basis, pending determination of the technical feasibility and commercial viability of each such project. Costs are recognised as exploration and evaluation assets from the date of granting of a Prospecting Right. The capitalised costs are presented as exploration and evaluation assets as a result of the nature of the assets acquired.

Upon determination of technical feasibility and commercial viability, exploration and evaluation assets are first tested for impairment by allocating the relevant assets to cash-generating units or groups of cash-generating units, and then reclassified from exploration and evaluation assets to other appropriate categories of non-current assets. Depreciation of these assets commences once these assets are appropriately reclassified and are in commercial production.

Exploration and evaluation assets are assessed for impairment based on the guidance as provided by IFRS 6 *Exploration for and Evaluation of Mineral Resources.* These include:

- the period to explore, as granted in terms of the Prospecting Rights acquired, has expired during the period; or will expire in the near future; or is not expected to be renewed;
- further exploration on the projects is neither budgeted nor planned for in the near future;
- a decision was made not to develop a project; and
- there is an indication that the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from a successful development or the sale of the project.

If a project is abandoned, the related costs are expensed in profit or loss immediately.

Depreciation of exploration and evaluation assets commences when these assets are reclassified from exploration and evaluation assets to property, plant and equipment once these assets reach commercial production, and is recognised in cost of sales in profit or loss.

Intangible assets include acquisition-related fair values of the Quattro Scheme Participation of the Richards Bay Coal Terminal (RBCT). These assets are amortised on a straight-line basis over the expected life of 10 years. Intangible assets are evaluated for impairment indicators annually at the reporting date.

Intangible assets also include computer software that is acquired by the group. Computer software is measured at cost less accumulated amortisation and impairment losses. Computer software is amortised over its useful life of three years on a straight-line basis.

Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed annually at the reporting date for impairment indicators or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Each operating colliery, along with allocated common assets such as plants and administrative offices, is considered to be a cash-generating unit as each colliery is largely independent from the cash flows of other collieries and assets belonging to the group.

Value in use is generally determined by using discounted estimated future cash flows. Future cash flows are estimated based on quantities of recoverable minerals, expected coal prices (considering current and historical prices, price trends and related factors), production levels and cash costs of production, all based on life-of-mine plans. Future cash flows are discounted to their present value using a real discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Refer to note 3 of the accounting policies for a list of assumptions used to determine recoverable amounts/fair values of non-financial assets.

The term "recoverable minerals" refers to the estimated amount of coal that will be obtained from reserves and resources and all related exploration stage mineral interests after taking into account losses during coal processing and treatment. Estimates of recoverable minerals from such related exploration stage mineral interests will be risk adjusted based on management's relative confidence in such materials. In estimating future cash flows, assets are grouped at the lowest levels for which there are identifiable cash flows that are largely independent of cash flows from other asset groups. With the exception of other mine-related exploration potential and greenfields exploration potential, estimates of future undiscounted cash flows are included on an area-of-interest basis, which generally represents an individual operating mine.

In the case of mineral interests associated with other mine-related exploration potential and greenfields exploration potential, cash flows and fair values are individually evaluated based primarily on recent exploration results and recent transactions involving sales of similar properties, if any. Assumptions underlying future cash flow estimates are subject to significant risks and uncertainties.

Non-financial assets are reviewed annually for possible reversal of impairments at the reporting date. Reversal of impairments is also considered when there is objective evidence to indicate that the asset is no longer impaired. 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 not higher than the carrying value that would have been determined had no impairment been recognised in prior years.

Financial instruments

Financial instruments are initially measured at fair value when the group becomes a party to contractual arrangements. Transaction costs are included in the initial measurement of financial instruments, with the exception of financial instruments classified as at fair value through profit or loss.

The subsequent measurement of financial instruments is discussed below.

A financial asset is derecognised when the right to receive cash flows from the asset has expired or the group has transferred its rights to receive cash and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Notes to the financial statements continued

for the year ended 31 March 2016

2 Accounting policies *(continued)*

Financial instruments *(continued)*

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss recognised in equity is recognised in profit or loss. On derecognition of a financial liability, the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid is recognised in profit or loss.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The group classifies its financial assets in the following categories: loans and receivables, held-to-maturity and at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Purchases and sales of financial assets are recognised on trade date, the date on which the group becomes a party to the contractual provisions.

(i) Financial assets

(a) **Loans and receivables** are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are subsequently measured at amortised cost using the effective interest method less allowance for impairment. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables include trade and other receivables (excluding VAT and prepayments), investments and loans, and cash and cash equivalents.

Cash and cash equivalents are defined as cash on hand, deposits held at call with banks and short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents exclude restricted cash.

Allowance for impairment of receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The group considers evidence of impairment for trade and other receivables at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of trade and other receivables is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance for impairment account against trade and other receivables. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed (limited to the initial impairment loss recognised) through profit or loss.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

(b) **Financial assets at fair value through profit or loss** have two subcategories: financial assets held-for-trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management in terms of specified criteria:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency (applicable to the group).
- A group of financial assets is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy.
- The item proposed to be designated at fair value through profit or loss is a hybrid contract that contains one or more embedded derivatives.

These assets are subsequently measured at fair value with gains or losses arising from changes in fair value recognised in profit or loss in the period in which they arise. Refer to note 16, restricted investments, for additional information.

(c) **Held-to-maturity investments** are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. Held-to-maturity investments include restricted cash.

The group assesses at the end of each reporting period whether there is objective evidence that a held-to-maturity investment is impaired as a result of an event. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the held-to-maturity investment's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss.

If a held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in profit or loss.

(ii) Financial liabilities

(a) **Borrowings** are initially recognised at fair value net of transaction costs incurred and subsequently measured at amortised cost, comprising original debt less principal payments and amortisation, using the effective interest method. Any difference between proceeds (net of transaction cost) and the redemption value is recognised in profit or loss over the period of the borrowing using the effective interest method.

Fees paid on the establishment of loan facilities are capitalised as a prepayment and amortised over the period of the facility to which they relate.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(b) **Trade and other payables and vendor liabilities** are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Payables are classified as current liabilities if payment is due within 12 months. If not, they are presented as non-current liabilities.

(c) **Financial liabilities**

IDC equity-linked call option

The option was recognised initially at fair value and the attributable transaction costs recognised in profit or loss. Subsequent to initial recognition, the option is measured at fair value and changes therein are recognised in administration expenses in profit or loss.

Financial guarantees

Financial guarantees are contracts that require the company to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of the debt instrument. Financial guarantee liabilities are initially recognised at fair value. Subsequent to initial recognition, the financial guarantee liabilities are measured at the higher of:

- the amount determined in accordance with IAS 37; and
- the amount recognised initially less, when appropriate, cumulative amortisation recognised in accordance with IAS 18.

Guarantees that do not meet the definition of financial guarantee contracts are not recognised by the group, but the carrying value of the guarantees is disclosed. Refer to notes 15, 24, 25 and 29 in this regard.

(iii) Derivative financial instruments

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the combined instrument is not measured at fair value through profit or loss.

The group holds derivative financial instruments to hedge some of its foreign currency risk exposures. Derivatives are recognised initially at fair value and the attributable transaction cost is recognised in the statement of profit or loss. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised in administration expenses in profit or loss.

Notes to the financial statements continued

for the year ended 31 March 2016

2 Accounting policies *(continued)*

Inventories

Inventories comprise coal run-of-mine stockpiles, coal product stockpiles and consumables. Inventories are measured at the lower of cost and net realisable value after appropriate allowances for obsolete, redundant and slow-moving stockpiles and consumables.

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

Cost is determined by reference to direct mining expenditure and an appropriate portion of overhead expenditure including amortisation and depreciation at the relevant stage of production based on normal production levels. Coal stockpiles are valued at average production cost.

Leased assets and lease payments

Capitalised leased assets are depreciated over the shorter of their estimated useful lives and the lease terms.

Leases of items of property, plant and equipment, where the group has substantially all the risks and rewards of ownership, are classified as finance leases. The assets are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made or received under finance leases are apportioned between the finance expense or income and the reduction of the outstanding liability or receivable. The finance expense or income is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability or receivable.

Future lease payments, net of finance charges, are included in non-current borrowings, with the current portion included under current liabilities.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Other leases are operating leases and the leased assets are not recognised on the group's statement of financial position. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the group the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the group's incremental borrowing rate.

Environmental trust funds

Contributions are made to the group's trust funds, created in accordance with statutory requirements, to fund the estimated cost of pollution control, rehabilitation and mine closure at the end of the life of the group's mines. The trusts are consolidated into the group as the group exercises full control of the trust. The measurement of the investments held by the trust funds is dependent on their classification under financial assets and income received and fair value movements are treated in accordance with these classifications.

Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the present value of the best estimate of the expenditure required to settle the present obligation at reporting date using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. This estimate takes into account the associated risks and uncertainties. The increase in the provision due to the passage of time is recognised as interest expense.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic benefits will be required, the provision is reversed.

(i) Mine closure and environmental rehabilitation provision

An obligation to incur environmental restoration, rehabilitation and decommissioning costs arises when disturbance is caused by the development or ongoing production of a mining property. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalised at the start of each project as soon as the obligation to incur such costs arises.

These costs are recognised in profit or loss over the life of the operation, through the depreciation of the asset and the unwinding of the discount on the provision. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and recognised in profit or loss as extraction progresses.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work (that result from changes in the estimated timing or amount of the cash flow or a change in the discount rate), are added to or deducted from the cost of the related asset in the current period.

If a decrease in liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy dealing with impairments of non-financial assets.

Current and deferred taxation

The current income taxation charge is the expected taxation payable on the taxable income for the year and is calculated on the basis of the taxation laws enacted or substantively enacted at the reporting date in the country where the group operates and generates taxable income. Management periodically evaluates positions taken in taxation returns with respect to situations in which applicable taxation regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the taxation authorities.

Deferred taxation is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Under this method deferred taxes are recognised for the taxation consequences of temporary differences by applying expected taxation rates to the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except to the extent that deferred taxation arises from the initial recognition of an asset or liability in a transaction that is not a business combination and does not affect the accounting or taxable profit or loss at the time of the transaction. Deferred taxation is charged to profit or loss, except where the taxation relates to items recognised in OCI or directly in equity, in which case the taxation is also recognised in OCI or directly in equity. The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

The principal temporary differences arise from amortisation and depreciation on property, plant and equipment, provisions, unutilised taxation losses and unutilised capital allowances carried forward. Deferred taxation assets relating to the carry forward of unutilised taxation losses and unutilised capital allowances are recognised to the extent that it is probable that future taxable profits will be available against which the unutilised taxation losses and unutilised capital allowances can be utilised.

Deferred taxation is provided on temporary differences arising from investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset current taxation assets against current taxation liabilities and when the deferred taxation assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Interest received from and paid to the taxation authorities is classified as finance income and finance cost.

Employee benefits

(i) Short-term employee benefits

The costs of all short-term employee benefits are recognised in the period in which the employee renders the related service. The accruals for employee entitlements to salaries, performance bonuses and annual leave represent the amounts which the group has a present obligation to pay as a result of the employee's service provided. The accruals have been calculated at undiscounted amounts based on current salary levels.

(ii) Defined contribution plan

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity in terms of the defined contribution provident plan and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an expense in profit or loss as incurred.

(iii) Equity compensation benefits

Entities within the group receiving goods or services shall measure the share-based payment transaction as equity-settled only when the awards granted are its own equity instruments, or the entity has no obligation to settle the share-based payment transaction. The entity settling a share-based payment transaction when another entity in the group receives the goods or services recognises the transaction as equity-settled only if it is settled in its own equity instruments. In all other cases, the transaction is accounted for as cash-settled.

Notes to the financial statements continued

for the year ended 31 March 2016

2 Accounting policies *(continued)*

Employee benefits *(continued)*

(iii) Equity compensation benefits (continued)

Cash-settled share-based payments are remeasured at each reporting date. The expense recognised in profit or loss for the year represents that portion of the fair value that is attributable to the portion of the contractual period which had elapsed at the reporting date and the movement in fair value between the grant date/previous reporting date and the current reporting date, with a corresponding increase in liabilities.

Equity-settled share-based payments are measured at fair value that includes market performance conditions but excludes the impact of any service and non-market performance conditions of the equity instruments at the date of the grant. The share-based payments are expensed as an employee expense with a corresponding increase in equity over the vesting period, based on the group's estimate of the shares that are expected to eventually vest. Share-based payment expenses recognised in current and previous financial years are reversed out of profit or loss in the event of termination of the share plan (forfeited/lapsed) for "fault" and "no fault" definitions, to the extent that shares have not become unconditional/not vested. The group used an appropriate option-pricing model in determining the fair value of the options granted.

Non-market vesting conditions are included in assumptions about the number of appreciation rights or notional shares to become exercisable or the number of shares that the employee will ultimately receive. This estimate is revised at each reporting date to reflect the best estimate or actual number of share appreciation rights that vest, with any adjustment being made to both equity and profit or loss as an employee cost. When the group issues share-based instruments to settle certain transactions, the payments are measured at the fair value of the goods and services provided. If the fair value of the goods or services cannot be determined, the share-based payment is measured at the fair value of the equity instrument at the date of the grant, the date the group obtains the goods or the counterparty renders the service.

(iv) Leave pay

The group accrues for the cost of the leave days granted to employees during the period in which the leave days accumulate.

Stated capital

Stated capital is classified as equity. Incremental costs directly attributable to the issue of the ordinary shares and share options are recognised as a deduction from equity.

Assets held-for-sale and discontinued operations

A non-current asset or disposal group is classified as held-for-sale and stated at lower of carrying value and fair value less cost to sell, when its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The classification as held-for-sale of a non-current asset or disposal group occurs when it is available for immediate sale in its present condition and the sale is highly probable. A sale is considered highly probable if management is committed to a plan to sell the non-current asset or disposal group, an active programme has been initiated, the non-current assets or disposal group are marketed at a price reasonable to its fair value and the disposal will be completed within one year from classification.

Immediately before initial classification of a non-current asset or disposal group as held-for-sale, it is reviewed for impairment in terms of the applicable IFRS. At each subsequent reporting date, the carrying values are remeasured at the lower of carrying value or fair value less costs to sell. The impairment charged to profit or loss is the excess of the carrying value of the non-current asset or disposal group over its expected fair value less costs to sell. A reversal of impairment is recognised for any subsequent increase in fair value less costs to sell but not in excess of the cumulative impairment loss already recognised.

No depreciation is provided on non-current assets from the date they are classified as held-for-sale. When a disposal group is classified as held-for-sale it is also necessary to assess whether or not the criteria for discontinued operations are met. A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resell.

If the criteria are met, the operation is classified as discontinued operations in profit or loss and the comparative amounts restated for all periods presented. No restatement of the statement of financial position comparative amounts is done. Assets and liabilities that meet the requirements to be classified as held-for-sale during the year are reclassified for disclosure purposes (refer to notes 19.1 to 19.7) at their carrying values at the beginning of the financial year.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised:

(i) Sale of coal and anthracite

The group enters into contracts for the sale of coal and anthracite. Revenue arising from coal and anthracite sales under these contracts is recognised when the price is determinable, the product has been delivered in accordance with the terms of the contract, the significant risks and rewards of ownership have been transferred to the customer, collection of the sales price is probable and associated costs can be reliably estimated. As sales from coal and anthracite contracts are subject to a customer survey with regard to quality, sales are initially recognised on a provisional basis using the group's best estimate of the product quality. Subsequent agreed quality adjustments are recognised directly in revenue, if different from the initial certificates. Income earned from the transport of coal to third parties is recognised as revenue in profit or loss as and when the coal exits the mine premises (over the weigh-bridge).

(ii) Management fees

The company has entered into a service agreement with one of its subsidiaries, Keaton Administrative and Technical Services Proprietary Limited (KATS), whereby its directors and employees provide management services to other operating and exploration subsidiaries in the group. These services are on-charged on a monthly basis based on actual time spent managing the operating and exploration subsidiaries.

(iii) Investment income from subsidiaries

In the company's separate financial statements, investment income received by the company on loan capital, ordinary shares and preference shares are classified as revenue and recognised using the effective interest method. Amortisation of financial guarantees provided to subsidiaries is also classified as revenue. Refer to note 4 in this regard.

Other income

(i) Discard sales

Course discard coal sales, filter-press cake sales and slurry sales are sold to a number of local customers and are recognised as other income as and when it exits the mine premises (over the weigh-bridge).

Finance income and costs

Finance income comprises interest received and receivable on funds invested and dividend income. Interest income is recognised on a time-proportion basis in profit or loss as it accrues, taking into account the principal outstanding and using the effective interest method. Dividend income is recognised in profit or loss on the date the group has a right to receive payment.

Finance costs comprise interest payable on borrowings calculated using the effective interest method, unwinding of the discount on environmental and other provisions and dividends on preference shares classified as liabilities. Borrowing costs capitalised are excluded.

Dividends declared

Dividends declared are recognised in the period in which they are approved by the Board of Directors. Dividends are payable in South African rand net of withholding tax.

Earnings per share

The group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to owners of the company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by dividing the profit attributable to owners of the company by the weighted average number of ordinary shares outstanding, adjusted for the effects of all potential dilutive ordinary shares.

Segment reporting

The segment report has been prepared in accordance with IFRS 8 *Operating Segments* which defines requirements for the disclosure of financial information of an entity's operating segments. An operating segment is identified as a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the same entity;
- whose operating results are reviewed regularly by the entity's chief operating decision maker (CODM) in order to allocate resources and assess its performance; and
- for which discrete financial information is available.

CODM is defined as the Executive Committee of the group.

- Total segment assets are those assets that are employed by a segment in its operating activities and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Related parties

Related parties are considered to be related if one party has the ability to control or jointly control the other party or to exercise significant influence over the other party. Key management personnel and their close family members are also regarded as related parties. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company or group, directly or indirectly.

Notes to the financial statements continued
for the year ended 31 March 2016

2 Accounting policies *(continued)*

Related parties *(continued)*

The basis of segment reporting is representative of the internal structure used for management reporting, as well as the structure in which the CODM reviews the information, which are the group's mining projects in the respective operating subsidiaries. The basis of segmental allocation is determined as follows:

- Operating profit/loss (before net finance income/costs and taxation) that can be directly attributed to a segment and a relevant portion of the operating profit/loss that can be allocated on a reasonable basis to a segment, including the effect of transactions with other operating segments.

Measurement of fair values

A number of the group's accounting policies and disclosures require the measurement of fair values, for both financial assets and liabilities. The group has an established control framework with respect to the measurement of fair values. Significant valuation issues are reported to the group Audit Committee.

When measuring the fair value of an asset or liability, the group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Restricted investments (notes 16 and 19.3).
- Financial liabilities (note 25).
- Financial instruments (note 34).

3 Critical accounting estimates and judgements

The applied estimates are based on historical data and other factors that management considers appropriate under the given circumstances, but which are inherently uncertain and unpredictable. Such assumptions may be incomplete or inaccurate, and unexpected events or circumstances may occur. In addition, the group is subject to risks and uncertainties that may cause actual outcomes to deviate from these estimates.

It may be necessary to change previous estimates as a result of changes to the assumptions on which the estimates are based or due to new information or subsequent events. Estimates and underlying assumptions are reassessed on a regular basis. Changes to accounting estimates are recognised prospectively in the current and future periods if the change affects the current as well as future periods.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

3.1 Impairment of mining assets

The recoverable amount of mining assets is generally determined using discounted future cash flows. Management also considers such factors as the quality of the individual mineral deposit, market risk, and asset-specific risks in determining the fair value.

Key assumptions for the calculations of the mining assets' recoverable amounts are coal and anthracite prices, marketable real discount rates and the annual life-of-mine plans. The life-of-mine plans are based on the proved and probable reserves as included in the reserve declaration, which are determined in terms of the South African Mineral Resource Committee (SAMREC) as well as where applicable resources where management has high confidence in the mineral deposit and economical recovery of coal, based on historic and similar geological experience.

Factors affecting the estimates include:

- changes to proved and probable reserves;
- economical recovery of resources;
- the yields of the Coal Reserves may vary significantly from time to time;
- review of strategy;
- unforeseen operational issues at the mines;
- differences between actual commodity prices and commodity price assumptions;
- changes in the discount rates; and
- changes in capital, operating mining, processing and reclamation costs.

During the year under review, where impairment indicators exist, the group calculated the recoverable amounts (generally value in use) based on updated life-of-mine plans, contracted coal prices for Eskom and market-related coal prices for metallurgical coal and anthracite and a real discount rate, which ranges between 9.6% and 15% (2015: 9.6% to 15%), depending on the asset. Cash flows used in the impairment calculations are based on life-of-mine plans which are between five years and 17 years. Based on the impairment calculations performed, as noted above, the following impairments were recognised:

Vaalkrantz operation

The Vaalkrantz operation (part of LME) continued experiencing challenging geological conditions during the current financial year. This, coupled with the closure of two production sections as a result of safety and difficult mining conditions, continued depressed coal prices, increased costs and lower than expected yields resulted in the Board of Directors committing to a plan to dispose of the Vaalkrantz operation in September 2015. In addition, a decision was taken to dispose of the Balgray Project and the Koudelager Project (both part of LME) as they are seen as life extensions to the Vaalkrantz operation as it will utilise the existing infrastructure on Vaalkrantz, as well as the Mooiklip Coal Project (part of Amalahle).

The abovementioned operations/projects (disposal group) was classified as assets held-for-sale (refer to note 10 for additional disclosure). An impairment loss of R22 million was recognised on property, plant and equipment and an impairment loss of R47.8 million was recognised on intangible assets in terms of IAS 36 immediately before these assets were classified as held-for-sale in terms of IFRS 5. The recoverable amount of R4.2 million was determined using fair value less costs to sell based on the offer received for the discontinued operations. The impairment losses were recognised in operating expenses, as disclosed in note 10.

At 31 March 2016, an additional impairment loss of R16.1 million was recognised in operating expenses for remeasurement in terms of IFRS 5 as the carrying amount of the disposal group was higher than the fair value less costs to sell. Refer to note 19 for additional information. No sensitivity analysis was performed as the disposal group was fully impaired. Note 35 discloses the relevant segments affected by the above mentioned impairments.

Leeuw Braakfontein Project

The Braakfontein Mining Right is held by Leeuw Braakfontein Colliery Proprietary Limited (LBC), a reportable segment in terms of IFRS 8. The project is located approximately 10km south-east of the town Newcastle in KwaZulu-Natal. Development work performed to date on the project culminated in the compilation of a feasibility study which contemplated a fully integrated opencast and underground operation on the Top and Bottom seams of the Klip River Coalfield. To date, the LBC Project has been evaluated on the basis of both an export and domestic thermal product operation. Continued depressed export coal pricing and a bleak medium-term view on the Richards Bay API4 index has had a material impact on the economics of Braakfontein. We continue to evaluate feasibility options around exclusive domestic supply. However, until the pricing and delivery schedule for such supply are firmed up, the economics of Braakfontein remain depressed in line with global seaborne coal prices. Taking into account the aforementioned information, using the updated life-of mine plan of 17 years, market-related coal prices and a real discount rate of 13%, the group calculated the recoverable amount for LBC (using a value-in-use model) of R115.3 million, which resulted in an impairment charge of R159.2 million recorded in mining and related expenses in profit or loss. Refer to note 14 for additional information.

Sensitivity analyses are also performed where estimates and assumptions used in the impairment calculation are stretch-tested to determine the impact on the recoverable amount. Some of the most significant assumptions that influence the life-of-mine plans, and therefore impairments, are the expected coal commodity prices. A 5% decrease in coal prices at the reporting date would have resulted in an additional impairment of R73.2 million, net of taxation. This analysis assumes that all other variables remain constant.

3.2 Estimate of exposure and liabilities with regard to rehabilitation costs

Estimated long-term environmental obligations, comprising pollution control, rehabilitation and mine closure, are based on the group's environmental management plans in compliance with current technological, environmental and regulatory requirements. At year-end, the company uses independent third parties in quantifying the environmental rehabilitation liability estimates, which includes, among others, surveyed measurements to estimate the volumes required at the group's opencast mines, to fill the void at year-end. Significant judgement is applied in estimating ultimate rehabilitation cost that will be required in future to rehabilitate the group's mines. The ultimate cost may significantly differ from current estimates.

Management used an inflation rate of 6.3% (2015: 5.7%) and the expected life of the mines according to the life of-mine plans in the calculation of the estimated net present value of the rehabilitation liability. The discount rates used for the calculation are dependent on the operation's life of mine and are as follows: for one to five years: 8.4% (2015: 7.1%); and for 10 years and beyond: 9.1% (2015: 7.8%). These estimates were based on recent yields determined on government bonds. Refer to notes 19.6 and 26 for additional information.

3.3 Estimate of taxation

Significant judgement is required in determining the income taxation liability. There are many transactions and calculations for which the ultimate taxation determination is uncertain during the ordinary course of business. Where the final taxation outcome is different from the amounts that were initially recognised, such differences will impact the income taxation and deferred taxation liabilities in the period in which such determination is made. Management has to exercise judgement with regard to deferred taxation assets. Where the possibility exists that no future taxable income may flow against which these assets can be offset, the deferred taxation assets are not recognised. Refer to notes 10.2 and 28 for additional information.

Notes to the financial statements continued

for the year ended 31 March 2016

3 Critical accounting estimates and judgements *(continued)*

3.4 Fair value of share-based payments

The fair value of the 2007 share plan share appreciation rights is determined by using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the company's historic volatility, particularly over the historic period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

The fair value of the 2013 share plan options is determined by using the Monte Carlo simulation method. Measurement inputs include the share price on the measurement date, the total return index for 11 other companies that are peers to the company, company performance scorecard, expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, forfeiture rates, and the risk-free interest rates (sourced from the Bond Exchange of South Africa).

Refer to note 21 for detail on each of these inputs used.

3.5 Assessment of contingencies

Contingencies will only realise when one or more future events occur or fail to occur. The exercise of significant judgement and estimates of the outcome of future events is required during the assessment of the impact of such contingencies. Litigation and other judicial proceedings as a rule raise difficult and complex legal issues and are subject to uncertainties and complexities including, but not limited to, the facts and circumstances of each particular case, issues regarding the jurisdiction in which the suit is brought and differences in applicable law. Upon resolution of any pending legal matter, the group may be forced to incur charges in excess of the presently established provisions and related insurance coverage. It is possible that the financial position, results of operations or cash flows of the group could be materially affected by the outcome of the litigation.

3.6 Coal Reserves and Resources

Coal Reserves and Resources are estimates of the amount of tonnes that can be economically and legally extracted from the group's properties. In order to calculate the reserves and resources, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, yields, production techniques, recovery rates, production costs and commodity prices. Estimating the quantities and/or yields of the reserves and resources requires the size, shape and depth of the coal deposit to be determined by analysing geological data such as the logging and assaying of drill samples. This process may require complex and difficult geological judgements and calculations to interpret the data. Because the economic assumptions used to estimate the reserves and resources change from year to year, and because additional geological data is generated during the course of operations, estimates of the mineral reserves and resources may change from year to year. Changes in the reserves and resources may affect the group's financial results and financial position in a number of ways, including:

- assets' carrying values may be affected due to changes in estimated cash flows;
- depreciation and amortisation charged in profit or loss may change as they are calculated on the units-of-production method; and
- environmental provisions may change as the timing and/or cost of these activities may be affected by the change in reserves.

At the end of each financial year, the estimate of proved and probable reserves and resources is updated. Depreciation of mining assets is prospectively adjusted, based on these changes.

	Group		Company	
	Year ended 31 March 2016 R	Year ended 31 March 2015 (Restated)* R	**Year ended 31 March 2016 R**	Year ended 31 March 2015 R
4 Revenue				
Coal sales	**829 945 776**	865 723 757	**–**	–
Transportation income	**202 133 758**	315 330 794	**–**	–
Amortisation of financial guarantee	**–**	–	**5 054 057**	5 054 057
Management fees	**–**	–	**3 307 582**	4 162 718
Investment income from subsidiaries:				
– interest on loans and receivables	**–**	–	**30 586 569**	25 972 542
– preference share investment dividends	**–**	–	**69 693 558**	70 429 169
– ordinary share investment dividends	**–**	–	**21 439 825**	39 082 733
	1 032 079 534	1 181 054 551	**130 081 591**	144 701 219
5 Cost of sales				
Mining contractors	**504 839 492**	490 410 175	**–**	–
Depreciation	**428 054 868**	430 131 768	**–**	–
Fuel	**89 531 394**	122 702 113	**–**	–
Labour	**11 277 393**	11 755 624	**3 150 078**	3 964 493
Finance cost – loans from subsidiaries	**–**	–	**2 003 579**	–
Other direct mining costs	**10 916 214**	9 503 369	**–**	–
Transport costs	**181 954 225**	285 193 420	**–**	–
Inventory movement	**13 532 521**	3 705 610	**–**	–
Deferred stripping capitalised(1)	**(375 488 648)**	(388 801 090)	**–**	–
Royalty taxation	**4 159 286**	4 337 874	**–**	–
	868 776 745	968 938 863	**5 153 657**	3 964 493

(1) The deferred stripping credit relates to costs incurred, in an opencast operation, in advance to pre-strip an area of waste in order to expose the Coal Reserve. The costs are capitalised to mine development costs in property, plant and equipment until such time as the coal exposed is subsequently mined. The stripping activity asset is depreciated on the units-of-production method, over the expected production life of the identified component of the Coal Reserve.

	Group		Company	
	Year ended 31 March 2016 R	Year ended 31 March 2015 (Restated)* R	**Year ended 31 March 2016 R**	Year ended 31 March 2015 R
6 Other income				
Discard sales	**987 796**	1 423 839	**–**	–
Sundry income(1)	**40 204 450**	9 912 075	**–**	–
	41 192 246	11 335 914	**–**	–

(1) Included in sundry income for the current financial year is a credit of R37.5 million (exclusive of VAT) relating to the reversal of the Megacube liability previously included under trade and other payables. Refer to notes 29 and 41 for additional information.

* *The 31 March 2015 group results have been restated for the effects of the application of IFRS 5* Non-current Assets Held-for-sale and Discontinued Operations *following management's decision to dispose of certain operations within the group (refer to note 10). The statement of financial position and the statement of changes in equity for this period are not required to be restated.*

Notes to the financial statements continued

for the year ended 31 March 2016

	Group		Company	
	Year ended 31 March 2016 R	Year ended 31 March 2015 (Restated)* R	**Year ended 31 March 2016 R**	Year ended 31 March 2015 R
7 Operating (loss)/profit before net finance (cost)/income				
Operating (loss)/profit before net finance (cost)/income is stated after:				
Professional and consultant fees	**7 630 380**	6 510 066	**3 769 645**	3 859 151
Consulting fees	**7 592 139**	6 500 898	**3 769 645**	3 859 151
Administration fees	**38 241**	9 168	**–**	–
Impairment losses	**161 061 739**	–	**262 428 225**	126 635 284
Impairment of interests in subsidiaries[1]	**–**	–	**260 528 225**	101 240 304
Impairment of other receivables[2]	**1 900 000**	–	**1 900 000**	25 394 980
Impairment of intangible assets[3][6]	**159 161 739**	–	**–**	–
Loss/(profit) on disposal of property, plant and equipment	**166 124**	(67 738)	**–**	–
Amortisation of intangible assets[7]	**2 173 238**	–	**–**	–
Depreciation	**429 622 387**	431 048 964	**–**	–
Buildings and leasehold improvements	**507 642**	858 228	**–**	–
Plant and equipment	**11 403 986**	14 051 370	**–**	–
Furniture and equipment	**507 356**	420 359	**–**	–
Mine development	**425 644 604**	422 986 223	**–**	–
Mine infrastructure	**4 329 576**	5 775 091	**–**	–
Other	**831 920**	657 908	**–**	–
Total depreciation[4]	**443 225 084**	444 749 179	**–**	–
Movement to inventory	**(13 602 697)**	(13 700 215)	**–**	–
Depreciation recognised in:	**429 622 387**	431 048 964	**–**	–
Cost of sales	**428 054 868**	430 131 768	**–**	–
Administrative expenses	**1 567 519**	917 196	**–**	–
Loss on initial recognition of a financial liability[5]	**61 525 698**	–	**–**	–

[1] *The company has impaired certain investments in subsidiaries/loans to subsidiaries where impairment indicators were identified. Refer to note 13 in this regard.*
[2] *Refer to note 18 for additional disclosure.*
[3] *Impairment recognised on intangible assets of the Leeuw Braakfontein Project. Refer to notes 3.1 and 14 for additional disclosure.*
[4] *Refer to note 12 for additional disclosure.*
[5] *The loss on initial recognition of the Gunvor SA loan as disclosed in note 24 is the main reason for the increase in administrative expenses year-on-year.*
[6] *The increase in mining and related expenses year-on-year mainly relates to this charge.*
[7] *Recognised in administrative expenses.*

* *The 31 March 2015 group results have been restated for the effects of the application of IFRS 5* Non-current Assets Held-for-sale and Discontinued Operations *following management's decision to dispose of certain operations within the group (refer to note 10). The statement of financial position and the statement of changes in equity for this period are not required to be restated.*

	Group		Company	
	Year ended 31 March 2016 R	Year ended 31 March 2015 (Restated)* R	**Year ended 31 March 2016 R**	Year ended 31 March 2015 R
7 Operating (loss)/profit before net finance (cost)/income *(continued)*				
Directors' remuneration and benefits				
Executive Directors – for managerial services	**14 517 008**	18 128 962	**14 517 008**	18 128 962
Short-term employee benefits: salaries and cash incentives	**10 413 320**	13 146 465	**10 413 320**	13 146 465
Post-employment benefits: provident fund and group risk contributions	**674 025**	608 185	**674 025**	608 185
Share-based payments – equity-settled	**3 429 663**	4 374 312	**3 429 663**	4 374 312
Non-Executive Directors – for services rendered as directors	**4 384 401**	4 235 381	**4 384 401**	4 235 381
Remuneration as Non-Executive Directors	**3 925 153**	3 776 133	**3 925 153**	3 776 133
Share-based payments – equity-settled[(1)]	**459 248**	459 248	**459 248**	459 248
Total directors' emoluments	**18 901 409**	22 364 343	**18 901 409**	22 364 343
Key management remuneration and benefits (excluding Executive Directors)**				
Short-term employee benefits: salaries and cash incentives	**–**	3 786 559	**–**	3 786 559
Post-employment benefits: provident fund and group risk contributions	**–**	170 217	**–**	170 217
Termination benefits	**–**	180 890	**–**	180 890
	–	4 137 666	**–**	4 137 666
Employee remuneration and benefits				
Short-term employee benefits: salaries and cash incentives	**34 442 639**	29 841 815	**2 956 704**	2 728 919
Post-employment benefits: provident fund and group risk contributions	**3 602 586**	3 293 007	**368 061**	335 539
Share-based payments – equity-settled	**3 229 844**	2 924 402	**410 534**	602 649
Termination benefits	**–**	185 967	**–**	74 148
	41 275 069	36 245 191	**3 735 299**	3 741 255
Total employee benefits	**60 176 478**	62 747 200	**22 636 708**	30 243 264
Audit fees	**2 925 078**	2 675 292	**1 680 359**	1 819 572
External audit services	**2 731 080**	2 482 643	**1 645 378**	1 755 081
Internal audit services	**193 998**	192 649	**34 981**	64 491
Legal fees	**7 926 594**	8 760 940	**2 728 837**	3 192 740
Marketing and investor relation costs	**2 968 241**	2 197 974	**2 968 241**	2 197 974
Rent expense	**1 701 466**	1 792 950	**–**	–
Foreign exchange loss	**8 563 594**	8 090 637	**8 361**	36 244

[(1)] Allocated to JD Salter during his appointment as Executive Chairman during the 2013 financial year.

***31 March 2016 – Prescribed Officers include the Executive Directors. The responsibilities of the Chief Operating Officer, who resigned in 2015, was assumed by the Executive Directors.*
31 March 2015 – Prescribed Officers include the Executive Directors and key management (Chief Operating Officer).

* *The 31 March 2015 group results have been restated for the effects of the application of IFRS 5* Non-current Assets Held-for-sale and Discontinued Operations *following management's decision to dispose of certain operations within the group (refer to note 10). The statement of financial position and the statement of changes in equity for this period are not required to be restated.*

Notes to the financial statements continued

for the year ended 31 March 2016

	Group		Company	
	Year ended 31 March 2016 R	Year ended 31 March 2015 (Restated)* R	**Year ended 31 March 2016 R**	Year ended 31 March 2015 R
8 Net finance (cost)/income				
Finance income				
Interest income – banks and money markets	**2 635 329**	4 236 359	**482 761**	618 817
Fair value through profit or loss financial assets – interest and dividend income[1]	**1 410 573**	1 041 231	**–**	–
Total finance income	**4 045 902**	5 277 590	**482 761**	618 817
Finance cost				
Financial liabilities	**(37 307 705)**	(37 578 681)	**(124 272)**	(42 947)
Borrowings[2]	**(32 301 036)**	(34 697 885)	**–**	–
Amortisation of project finance cost[2]	**(999 877)**	(1 329 429)	**–**	–
Unwinding expense of vendor liability[3]	**(3 618 261)**	(1 000 379)	**–**	–
Interest expense – other	**(388 531)**	(550 988)	**(124 272)**	(42 947)
Non-financial liabilities				
Unwinding of discount on mine closure and environmental rehabilitation provision[4]	**(20 898 019)**	(15 802 626)	**–**	–
Total finance cost	**(58 205 724)**	(53 381 307)	**(124 272)**	(42 947)
Net finance (cost)/income	**(54 159 822)**	(48 103 717)	**358 489**	575 870

[1] Refer to note 16 for a breakdown of restricted investments.
[2] Refer to note 24 for more detail on borrowings and finance cost.
[3] Refer to note 27.1 for additional information.
[4] Refer to note 26 for additional information.

* *The 31 March 2015 group results have been restated for the effects of the application of IFRS 5* Non-current Assets Held-for-sale and Discontinued Operations *following management's decision to dispose of certain operations within the group (refer to note 10). The statement of financial position and the statement of changes in equity for this period are not required to be restated.*

	Group		Company	
	Year ended 31 March 2016 R	Year ended 31 March 2015 (Restated)* R	**Year ended 31 March 2016 R**	Year ended 31 March 2015 R
9 Income taxation (credit)/expense				
Current taxation expense				
Current year	**2 736 258**	–	**2 736 258**	–
Deferred taxation				
Origination and reversal of temporary differences	**(4 903 887)**	42 188 623	**922 731**	(1 673 176)
	(2 167 629)	42 188 623	**3 658 989**	(1 673 176)
Reconciliation of effective taxation rate				
Normal taxation rate for companies	**28.00%**	28.00%	**28.00%**	28.00%
Adjusted for:				
Non-deductible expenditure	**(16.85%)**	8.37%	**(45.93%)**	(147.40%)
Legal and consulting fees	**(0.55%)**	1.96%	**(0.48%)**	(5.78%)
Share-based payments	**(1.75%)**	2.96%	**(0.71%)**	(5.83%)
Loss on initial recognition of financial liability	**(10.09%)**	–	**–**	–
Foreign exchange losses	**(1.35%)**	–	**–**	–
Impairment of interests in subsidiaries	**–**	–	**(43.19%)**	(135.72%)
Other	**(3.11%)**	3.45%	**(1.55%)**	(0.07%)
Non-taxable income	**0.15%**	(3.56%)	**15.95%**	125.80%
Amortisation of financial guarantee	**–**	–	**0.84%**	5.42%
Dividends	**0.07%**	(1.54%)	**15.11%**	117.37%
Foreign exchange gains	**–**	(0.90%)	**–**	–
Other	**0.08%**	(1.12%)	**–**	3.01%
CGT inclusion rate adjustment	**(0.18%)**	(3.21%)	**(0.19%)**	–
Assessed loss utilised	**2.13%**	(0.03%)	**–**	–
Deferred taxation asset not recognised	**(6.18%)**	4.76%	**–**	–
Taxable items not included in (loss)/profit before taxation[(1)]	**(5.80%)**	18.94%	**–**	–
Effective taxation rate	**1.27%**	53.27%	**(2.17%)**	6.40%

The company is in a tax paying position in the current year as it has no remaining calculated taxation losses available to set off against taxable income. Refer to note 28 for additional disclosure regarding amounts available for set off against future taxable income from a group point of view.

[(1)] *These items relate to intercompany transactions between continuing and discontinued operations which eliminate on consolidation.*

* *The 31 March 2015 group results have been restated for the effects of the application of IFRS 5* Non-current Assets Held-for-sale and Discontinued Operations *following management's decision to dispose of certain operations within the group (refer to note 10). The statement of financial position and the statement of changes in equity for this period are not required to be restated.*

Notes to the financial statements continued

for the year ended 31 March 2016

10 Discontinued operations

The Vaalkrantz operation (part of LME) continued experiencing challenging geological conditions during the current financial year. This, coupled with the closure of two production sections as a result of safety and difficult mining conditions, continued depressed coal prices, increased costs and lower than expected yields resulted in the Board of Directors committing to a plan to dispose of the Vaalkrantz operation in September 2015. In addition, a decision was taken to dispose of the Balgray Project and the Koudelager Project (both part of LME) as they are seen as life extensions to the Vaalkrantz operation, as well as the Mooiklip Coal project (part of Amalahle). This disposal group is classified as a discontinued operation as this sale is part of a single coordinated plan to dispose of the group's anthracite assets (separate major line of business) which are all situated in KwaZulu-Natal (geographic area of operations).

The Braakfontein Thermal Coal Project, held by LBC, a wholly owned subsidiary of LME, is specifically excluded from the transaction. LBC, which will be unbundled from LME, will become a direct wholly owned subsidiary of the company.

The company entered into a Sale of Shares and Claims Agreement with Bayete Energy Resources Proprietary Limited (BER) on or about 11 February 2016 as announced on 15 February 2016. There are still a number of suspensive conditions which have to be met for the sale to become effective, including section 11 consent from the Minister of Mineral Resources in terms of the Mineral Petroleum and Resources Development Act, 28 of 2002 (MPRDA). The company also simultaneously entered into a management agreement with Witbank Mineral Resources Proprietary Limited (WMR), a related party to BER, for the management of LME up to and until the Sale of Shares and Claims Agreement with BER becomes unconditional.

As a consequence of the occurrence of a *force majeure* event, namely the drought which has resulted in Vaalkrantz Colliery having no water within which to conduct its operations, management decided to place Vaalkrantz Colliery on care and maintenance with effect from 1 May 2016 (refer to note 41 for additional information). The Sale of Shares and Claims Agreement as well as the Management Agreement are still effective with some of the clauses of the Management Agreement being temporarily suspended. Management expects that the sale with BER will be completed within the next 12 months.

These segments were not previously classified as held-for-sale or as discontinued operations. The comparative statements of profit or loss and other comprehensive income have been restated to show the discontinued operations separately from continuing operations.

Results of discontinued operations

	Notes	Year ended 31 March 2016 R	Year ended 31 March 2015 R
DISCONTINUED OPERATIONS			
Revenue		**176 821 851**	266 646 732
Cost of sales		**(209 022 228)**	(275 243 408)
Gross loss		**(32 200 377)**	(8 596 676)
Other income		**4 715 000**	8 595 246
Operating expenses		**(99 650 936)**	(90 453 422)
Operating loss before net finance cost	10.1	**(127 136 313)**	(90 454 852)
Net finance cost		**(1 640 044)**	(1 638 852)
Finance income		**1 101 540**	872 881
Finance cost		**(2 741 584)**	(2 511 733)
Net loss before taxation		**(128 776 357)**	(92 093 704)
Income taxation expense	10.2	**–**	(16 777 221)
Net loss from discontinued operations		**(128 776 357)**	(108 870 925)
Net loss attributable to:			
Owners of the company		**(94 325 973)**	(59 193 962)
Non-controlling interest		**(34 450 384)**	(49 676 963)
		(128 776 357)	(108 870 925)
Cash flows from discontinued operations			
Cash flows from operating activities		**(36 920 578)**	20 784 986
Cash flows from investing activities		**(13 700 452)**	(28 265 695)
Cash flows from financing activities		**(73 764)**	(3 641 176)

	Year ended 31 March 2016 R	Year ended 31 March 2015 R
10 Discontinued operations *(continued)*		
10.1 Operating loss before net finance cost		
Operating loss before net finance cost are stated after:		
Consulting fees	**953 449**	1 051 233
Impairment losses	**85 938 540**	56 532 043
Impairment of intangible assets[(1) (4)]	**49 604 305**	–
Impairment of property, plant and equipment[(2) (4)]	**36 334 235**	56 532 043
Loss on disposal of property, plant and equipment	**–**	3 600 000
Amortisation of intangible assets[(1) (4)]	**757 258**	1 514 514
Depreciation	**2 316 903**	9 085 512
Plant and equipment	**767 434**	4 116 228
Furniture and equipment	**44 619**	287 319
Mine development	**1 302 731**	11 299 727
Mine infrastructure	**119 861**	1 639 590
Other	**82 258**	173 969
Total depreciation[(2)]	**2 316 903**	17 516 833
Movement to inventory	**–**	(8 431 321)
Depreciation recognised in:	**2 316 903**	9 085 512
Cost of sales	**2 190 026**	8 785 533
Operating expenses	**126 877**	299 979
Employee remuneration and benefits		
Short-term employee benefits: salaries and cash incentives	**11 430 920**	9 403 897
Post-employment benefits: provident fund and group risk contributions	**993 271**	1 036 579
Termination benefits	**–**	62 664
Total employee benefits	**12 424 191**	10 503 140
Audit fees	**862 826**	588 374
External audit services	**744 692**	490 861
Internal audit services	**118 134**	97 513
Legal fees	**1 100 864**	661 738
Stock loss provision[(3)]	**–**	24 659 987
Net realisable value adjustment on inventory	**986 496**	2 746 060
Operating lease expense	**296 907**	451 242
Foreign exchange loss/(gain)	**2 245 928**	(356 552)

[(1)] *Refer to note 19.2 for additional disclosure.*
[(2)] *Refer to note 19.1 for additional disclosure.*
[(3)] *Refer to note 19.7 for additional disclosure.*
[(4)] *Recognised in operating expenses.*

Notes to the financial statements continued
for the year ended 31 March 2016

10 Discontinued operations *(continued)*
10.2 Income taxation expense

	Year ended 31 March 2016 R	Year ended 31 March 2015 R
Current taxation expensed		
Current year	–	–
Deferred taxation		
Origination and reversal of temporary differences	–	16 777 221
	–	16 777 221
Reconciliation of effective taxation rate		
Normal taxation rate for companies	28.00%	28.00%
Adjusted for:		
Non-deductible expenditure	(0.51%)	(1.55%)
Non-taxable income	1.18%	2.25%
Deferred taxation asset reversed	–	(56.92%)
Deferred taxation asset not recognised	(37.84%)	(0.09%)
Deductible items not included in loss before taxation[1]	9.17%	9.10%
Overprovision prior year	–	0.99%
Effective taxation rate	–	(18.22%)

Current taxation has not been provided for as the discontinued operations incurred taxation losses and have calculated taxation losses and capital allowances. Deferred taxation assets have not been recognised in terms of these losses and allowances because the relevant companies do not have a history of taxable profits and taxable profits will not be available in the immediate future against which these companies can utilise these losses.

[1] *These items relate to intercompany transactions between continuing and discontinued operations which eliminate on consolidation.*

	At 31 March 2016 R
Unrecognised deferred taxation assets consist of:	
Taxation losses	43 373 483
Capital allowances/provisions	60 655 472
	104 028 955

	Group Year ended 31 March 2016	Group Year ended 31 March 2015
11 Earnings per share		
The calculation of basic earnings per share is based on net (loss)/profit for the year, attributable to owners of the company, divided by the weighted average number of ordinary shares in issue during the year.		
Net (loss)/profit attributable to owners of the company (rand)	**(250 587 708)**	(31 028 870)
Continuing operations	**(156 261 735)**	28 165 092
Discontinued operations	**(94 325 973)**	(59 193 962)
Weighted average number of ordinary shares in issue	**251 263 124**	224 354 265
Basic earnings per share (cents)	**(99.7)**	(13.8)
Continuing operations	**(62.2)**	12.6
Discontinued operations	**(37.5)**	(26.4)
Diluted earnings per share		
The calculation of diluted earnings per share is based on net (loss)/profit for the year attributable to owners of the company. The weighted average number of shares in issue is adjusted to assume conversion of all potential dilutive shares as a result of share options granted under the share option schemes in issue. A calculation is performed to determine the number of shares that could have been acquired at fair value, determined as the average annual market share price of the company's shares, based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.		
Weighted average number of ordinary shares in issue	**251 263 124**	224 354 265
Potential shares	**–**	3 673 899
Weighted average number of shares for diluted earnings per share	**251 263 124**	228 028 164
Diluted earnings per share (cents)[1]	**(99.7)**	(13.8)
Continuing operations[2]	**(62.2)**	12.4
Discontinued operations[1]	**(37.5)**	(26.4)

[1] *Anti-dilutive.*
[2] *Anti-dilutive in the current year.*

Notes to the financial statements continued
for the year ended 31 March 2016

11 Earnings per share *(continued)*

Headline earnings per share

The calculation of headline earnings, net of taxation and NCI, per share is based on the basic earnings per share calculation adjusted for the following items:

	Group			
	Year ended 31 March 2016 Gross R	**Year ended 31 March 2016 Net R**	Year ended 31 March 2015 Gross R	Year ended 31 March 2015 Net R
Continuing operations				
Net (loss)/profit for the year attributable to owners of the company		**(156 261 735)**		28 165 092
Adjusted for:				
Loss/(profit) on disposal of property, plant and equipment	**166 124**	**135 425**	(67 738)	(35 668)
Impairment of intangible assets	**159 161 739**	**114 596 453**	–	–
Headline earnings – continuing operations		**(41 529 857)**		28 129 424
Discontinued operations				
Net loss for the year attributable to owners of the company		**(94 325 973)**		(59 193 962)
Adjusted for:				
Loss on disposal of property, plant and equipment	**–**	**–**	3 600 000	1 918 080
Impairment of assets	**85 938 540**	**68 307 641**	56 532 043	30 120 273
Headline earnings – discontinued operations		**(26 018 332)**		(27 155 609)
Total headline earnings		**(67 548 189)**		973 815
		Cents		Cents
Headline earnings per share		**(26.9)**		0.4
Continuing operations		**(16.5)**		12.5
Discontinued operations		**(10.4)**		(12.1)
Diluted headline earnings per share[2]		**(26.9)**		0.4
Continuing operations[2]		**(16.5)**		12.3
Discontinued operations[1]		**(10.4)**		(12.1)

[1] *Anti-dilutive.*
[2] *Anti-dilutive in the current year.*

11 Earnings per share *(continued)*

	Number of shares 2016	Number of shares 2015
Weighted/weighted diluted average number of ordinary shares:		
Shares in issue at 1 April 2015 (1 April 2014)	**224 442 642**	224 310 979
Effect of shares issued 2 December 2014	**–**	43 286
Effect of shares issued 11 August 2015	**2 442 231**	–
Effect of shares issued 13 November 2015	**24 378 251**	–
Weighted number of ordinary shares at reporting date	**251 263 124**	224 354 265
Potential diluted shares	**–**	3 673 899
Diluted number of ordinary shares in issue at reporting date	**251 263 124**	228 028 164

Notes to the financial statements continued

for the year ended 31 March 2016

12 Property, plant and equipment

	Land, buildings and leasehold improvements R	Mine development R
Group		
Cost		
31 March 2016		
Opening balance	**35 243 620**	**1 618 181 752**
Reclassification to assets held-for-sale (refer to note 19)	**(12 120 000)**	**(200 406 749)**
Additions[1]	**72 360**	**379 877 839**
Change in estimates – environmental rehabilitation assets	**–**	**11 690 416**
Reclassification[2]	**–**	**–**
Disposals	**–**	**–**
Closing balance	**23 195 980**	**1 809 343 258**
31 March 2015		
Opening balance	38 818 599	1 167 097 812
Additions	25 021	408 959 920
Change in estimates – environmental rehabilitation assets	–	42 124 020
Disposals	(3 600 000)	–
Closing balance	35 243 620	1 618 181 752
Accumulated depreciation and impairment losses		
31 March 2016		
Opening balance	**(10 344 242)**	**(1 144 563 243)**
Reclassification to assets held-for-sale (refer to note 19)	**6 045 862**	**166 889 286**
Depreciation expense[3]	**(507 642)**	**(425 644 604)**
Disposals	**–**	**–**
Closing balance	**(4 806 022)**	**(1 403 318 561)**
31 March 2015		
Opening balance	(3 440 152)	(668 685 871)
Depreciation expense	(858 228)	(434 285 950)
Impairment loss	(6 045 862)	(41 591 422)
Disposals	–	–
Closing balance	(10 344 242)	(1 144 563 243)
Carrying amount		
31 March 2016	**18 389 958**	**406 024 697**
31 March 2015	24 899 378	473 618 509

All plant and equipment, except leasehold improvements, are owned.

[1] Deferred stripping additions of R375.5 million (2015: R388.8 million) are included in mine development. The deferred stripping additions relate to costs incurred, in an opencast operation, in advance to pre-strip an area of waste in order to expose the Coal Reserve. The costs are capitalised to mine development costs in property, plant and equipment until such time as the coal exposed is subsequently mined. The stripping activity asset is depreciated on the units-of-production method, over the expected production life of the identified component of the Coal Reserve.

[2] The reclassification from assets under construction to plant and equipment relates to the commissioning of the filter press plant at the Vanggatfontein operation during the current year.

[3] During the current year, the group changed the depreciation method for certain mining-related assets from straightline to units-of-production. The depreciation expense for the year decreased by R6.3 million due to the change in estimate. Future depreciation will increase with R6.3 million. It is impracticable to determine the exact timing of the increased depreciation due to the units-of-production method.

	Assets under construction R	Plant and equipment R	Mine infrastructure R	Furniture and equipment R	Other R	Total R
	34 829 528	239 736 649	109 221 019	4 310 325	7 252 026	2 048 774 919
	–	(85 675 108)	(13 461 262)	(1 933 736)	(2 183 486)	(315 780 341)
	6 392 910	3 898 036	44 000	339 913	594 647	391 219 705
	–	(101 000)	(2 242 757)	–	–	9 346 659
	(41 222 438)	41 222 438	–	–	–	–
	–	–	–	(133 260)	(929 892)	(1 063 152)
	–	199 081 015	93 561 000	2 583 242	4 733 295	2 132 497 790
	–	234 979 584	109 024 051	3 708 461	5 169 055	1 558 797 562
	34 829 528	4 489 999	730 412	659 776	2 622 843	452 317 499
	–	267 066	(533 444)	–	–	41 857 642
	–	–	–	(57 912)	(539 872)	(4 197 784)
	34 829 528	239 736 649	109 221 019	4 310 325	7 252 026	2 048 774 919
	–	(83 744 609)	(36 068 745)	(2 353 208)	(3 082 962)	(1 280 157 009)
	–	70 974 438	11 245 557	1 817 348	1 879 918	258 852 409
	–	(11 403 986)	(4 329 576)	(507 356)	(831 920)	(443 225 084)
	–	–	–	77 969	251 140	329 109
	–	(24 174 157)	(29 152 764)	(965 247)	(1 783 824)	(1 464 200 575)
	–	(60 553 729)	(24 871 878)	(1 677 011)	(2 413 841)	(761 642 482)
	–	(18 167 598)	(7 414 681)	(707 678)	(831 877)	(462 266 012)
	–	(5 023 282)	(3 782 186)	(24 828)	(64 463)	(56 532 043)
	–	–	–	56 309	227 219	283 528
	–	(83 744 609)	(36 068 745)	(2 353 208)	(3 082 962)	(1 280 157 009)
	–	174 906 858	64 408 236	1 617 995	2 949 471	668 297 215
	34 829 528	155 992 040	73 152 274	1 957 117	4 169 064	768 617 910

Notes to the financial statements continued

for the year ended 31 March 2016

12 Property, plant and equipment *(continued)*

Additional disclosure for leased assets

	Computer equipment R
The following assets are pledged as security for instalment sale and lease agreements:	
Cost	903 334
Accumulated depreciation	(534 592)
Carrying value	368 742

Property, plant and equipment pledged as security for borrowings

Assets (including mineral rights) with a carrying value of R530.7 million of the Vanggatfontein Colliery in Delmas, Mpumalanga, have been secured by the registration of a general and special notarial bond as well as the registration of mortgage bonds over the fixed property in favour of Investec Bank Limited. Refer to note 24.

The Surface Rights of Braakfontein in Newcastle, KwaZulu-Natal, have been committed as security for the loan agreement with Vitol SA. Refer to note 24.

Insurance

All of the above assets, with the exception of land and mine development, are insured at approximate cost of replacement.

Land and buildings

Land and buildings consist of:

Portion 3 of the Farm Vanggatfontein 251, Registration Division IR, province of Mpumalanga, measuring 190.1501ha

Portion 5 (a portion of portion 4) of the farm Vanggatfontein 251, Registration Division IR, province of Mpumalanga, measuring 204.8589ha

Remaining extent of portion 4 of the farm Vanggatfontein 251, Registration Division IR, province of Mpumalanga, measuring 395.0091ha

Portion 10 of the farm Straffontein 252, Registration Division IR, province of Mpumalanga, measuring 59.7374ha

Portion 9 (a portion of portion 8) of the farm Vanggatfontein 251, Registration Division IR, province of Mpumalanga, measuring 46.314ha

Remaining extent of the farm Braakfontein 4278, HT, Newcastle, province of KwaZulu-Natal, measuring 1264.2861ha

13 Interest in subsidiary companies

Set out below is a list of material subsidiaries of the group (refer to note 38 for a list of subsidiaries):

	Keaton Energy Holdings		
	Keaton Mining Proprietary Limited*	Leeuw Mining and Exploration Proprietary Limited and its subsidiaries*	Neosho Trading 86 Proprietary Limited
	South Africa – Mpumalanga	South Africa – KwaZulu-Natal	South Africa – Mpumalanga
	100% (2015: 74%)	100% (2015: 74%)	74% (2015: 74%)

** During the current financial year, an additional 26% non-controlling interest was acquired in these companies and they are therefore 100% held at 31 March 2016 (refer to note 23 for further details regarding the increase in shareholding during the year).*

The following table summarises the Group's only remaining subsidiary that has material NCI, before intragroup eliminations:

	Neosho Trading 86 Proprietary Limited	
	At 31 March 2016	At 31 March 2015
NCI percentage	**26%**	26%
Total non-current assets	**341 369 960**	299 119 277
Total current assets	**737 450**	40 865 305
Total non-current liabilities	**(67 788 371)**	(43 028 000)
Total current liabilities	**(66 578 724)**	(29 425 903)
Net assets	**207 740 315**	267 530 679
Carrying amount of NCI	**54 012 482**	69 557 977
Revenue	**–**	87 500
(Loss)/profit	**(59 790 727)**	201 903
Total comprehensive income	**(59 790 727)**	201 903
(Loss)/profit allocated to NCI	**(15 545 589)**	52 495
Net (decrease)/increase in cash and cash equivalents	**(36 395 968)**	36 819 583

The table below is presented for comparative purposes only, as the below mentioned subsidiaries are 100% owned as at 31 March 2016.

31 March 2015	Keaton Mining Proprietary Limited	Leeuw Mining and Exploration Proprietary Limited and its subsidiaries
NCI percentage	26%	26%
Total non-current assets	780 423 148	483 336 492
Total current assets	185 275 782	45 801 059
Total non-current liabilities	(1 026 989 308)	(467 530 827)
Total current liabilities	(216 293 401)	(115 147 370)
Net liabilities	(277 583 779)	(53 540 646)
Carrying amount of NCI	(72 171 783)	(13 920 568)
Revenue	1 181 054 551	266 646 732
Profit/(loss)	53 663 171	(160 530 957)
Total comprehensive income	53 663 171	(160 530 957)
Profit/(loss) allocated to NCI	13 952 424	(41 738 049)
Dividends paid to NCI	13 731 771	–
Net decrease in cash and cash equivalents	(36 081 584)	(1 786 693)

Notes to the financial statements continued

for the year ended 31 March 2016

	Company At 31 March 2016 R	Company At 31 March 2015 R
13 Interest in subsidiary companies *(continued)*		
Unlisted – shares at cost		
Labohlano Trading 46 Proprietary Limited[1]	**32 860 698**	22 312 500
Keaton Mining Proprietary Limited[2]	**168 649 100**	12 000 074
Keaton Administrative and Technical Services Proprietary Limited[3]	**100**	100
Amalahle Exploration Proprietary Limited[4]	**1 000 074**	74
Mafla Coal Proprietary Limited	**74**	74
Leeuw Mining and Exploration Proprietary Limited[5]	**82 539 125**	44 048 888
Xceed Resources Limited[6]	**194 656 714**	194 656 714
Izwi Coal Proprietary Limited	**180**	180
Intshe Coal Proprietary Limited	**60**	60
Rafcoal Mining Proprietary Limited	**74**	74
	479 706 199	273 018 738
[1] Labohlano Trading 46 Proprietary Limited – total acquisition price	**32 860 698**	22 312 500
share-based payment	**17 300 000**	17 300 000
shares issued (refer to note 23)	**9 048 198**	–
cash (refer to note 23)	**6 512 500**	5 012 500
[2] Keaton Mining Proprietary Limited	**168 649 100**	12 000 074
cash (refer to note 23)	**6 000 074**	74
shares issued (refer to note 23)	**150 649 026**	–
share-based payment (Prospecting Rights)	**12 000 000**	12 000 000
[3] Keaton Administrative and Technical Services Proprietary Limited	**100**	100
cash	**100**	100
[4] Amalahle Exploration Proprietary Limited	**1 000 074**	74
cash (refer to note 23)	**1 000 074**	74
[5] Leeuw Mining and Exploration Proprietary Limited – total acquisition price	**82 539 125**	44 048 888
share-based payment	**34 048 888**	34 048 888
conversion of convertible loan	**10 000 000**	10 000 000
cash (refer to note 23)	**38 490 237**	–
[6] Xceed Resources Limited – total acquisition price	**194 656 714**	194 656 714
cash	**194 656 714**	194 656 714

	Company At 31 March 2016 R	At 31 March 2015 R
13 Interest in subsidiary companies *(continued)*		
Loans receivable from subsidiary companies		
Keaton Administrative and Technical Services Proprietary Limited[1]	**8 636 645**	7 845 270
Keaton Administrative and Technical Services Proprietary Limited[2]	**28 459 296**	8 472 369
Mafla Coal Proprietary Limited[2]	**690 969**	690 969
Izwi Coal Proprietary Limited[2]	**3 014**	3 014
Intshe Coal Proprietary Limited[2]	**1 022 087**	1 022 087
Rafcoal Mining Proprietary Limited[2]	**179 940**	179 940
Amalahle Exploration Proprietary Limited[3]	**50 505**	361 588
Labohlano Trading 46 Proprietary Limited[3]	**46 641**	479 614
Leeuw Mining and Exploration Proprietary Limited[4]	**24 091 847**	22 141 420
Leeuw Mining and Exploration Proprietary Limited[5]	**169 507 159**	73 340 660
Leeuw Mining and Exploration Proprietary Limited[6]	**92 509 530**	81 029 486
Leeuw Mining and Exploration Proprietary Limited – instalment sale agreement[7]	**10 411 272**	10 317 600
Xceed Resources Limited[8]	**7 484 258**	6 234 258
Leeuw Braakfontein Colliery Proprietary Limited[8]	**3 120 340**	–
Neosho Trading 86 Proprietary Limited[9]	**(2 873 043)**	37 610 309
	343 340 460	249 728 584

[1] This loan is unsecured and bears interest at prime and has no repayment terms.
[2] These loans are unsecured, interest-free and have no fixed terms of repayment. These loans have also been impaired to their recoverable amounts.
[3] These loans bear interest at prime plus 2%, are unsecured, have no repayment terms and loan increases are settled on a monthly basis with the issue of unlisted cumulative redeemable preference shares.
[4] This loan is unsecured, bears interest at JIBAR plus 1.5% and has no repayment terms.
[5] This loan bears interest at prime plus 2%, is unsecured and has no capital repayment terms. Interest is settled monthly.
[6] This loan bears interest at the 90-day JIBAR plus 7%, is unsecured and has no repayment terms.
[7] Keaton Energy leases a coal washing plant to LME in terms of an instalment sale agreement taken over from Nedbank Limited. The coal washing plant serves as security for the lease. The instalment sale carries interest at prime and is payable on demand.
[8] These loans are unsecured, interest-free and have no fixed terms of repayment.
[9] This loan is unsecured, bears interest at the money market interest rate and will not be recalled for at least 18 months from year-end (2015: interest-free and no fixed terms of repayment).

	Company At 31 March 2016 R	At 31 March 2015 R
Unlisted cumulative redeemable preference shares at cost (including accrued preference dividends)		
Keaton Mining Proprietary Limited[1]	**457 012 067**	487 694 256
Labohlano Trading 46 Proprietary Limited[2]	**14 800 000**	13 300 000
Amalahle Exploration Proprietary Limited[2]	**9 900 000**	9 200 000
Izwi Coal Proprietary Limited[2]	**860 000**	860 000
Mafla Coal Proprietary Limited[2]	**3 900 000**	3 900 000
Leeuw Mining and Exploration Proprietary Limited[3]	**24 776 481**	21 174 678
	511 248 548	536 128 934

[1] The preferences share investments are unsecured and attract dividends (finance income) at JIBAR plus 4%, compounded quarterly in arrears. The preference share has a redemption date of 2 May 2027. During 2016, repayments of R77.8 million were made (2015: R51.5 million).
[2] The preferences share investments are unsecured and attract dividends (finance income) at prime plus 5%, compounded quarterly in arrears. The investment in Mafla, Izwi, Intshe and Rafcoal consisting of preference shares and loans have been fully impaired. All preference dividends which are in arrears incur interest at prime plus 7%. Preference dividends are repayable after the third anniversary of the issue date, which repayment period commenced in May 2011 for Amalahle and in July 2012 for Labohlano. To date, no actual repayments have been received, other than R0.5 million during 2015 from Amalahle.
[3] The preference share investments are unsecured and attract dividends (finance income) at an effective interest rate of prime plus 5% (2015: 22.75%), compounded quarterly in arrears. The preference shares have no fixed redemption date.

Notes to the financial statements continued

for the year ended 31 March 2016

	Company At 31 March 2016 R	Company At 31 March 2015 R
13 Interest in subsidiary companies *(continued)*		
Financial guarantee provided by parent		
Keaton Mining Proprietary Limited[(1)]	**24 427 940**	24 427 940
Total interest in subsidiary companies	**1 358 723 147**	1 083 304 196
Impairment of interest in subsidiary companies	**(411 955 213)**	(126 032 008)
Keaton Administrative and Technical Services Proprietary Limited[(2)]	**(28 695 009)**	(13 899 782)
Mafla Coal Proprietary Limited	**(4 591 043)**	(4 591 043)
Izwi Coal Proprietary Limited	**(863 194)**	(863 194)
Intshe Coal Proprietary Limited	**(1 022 147)**	(1 022 147)
Rafcoal Mining Proprietary Limited	**(180 014)**	(180 014)
Leeuw Mining and Exploration Proprietary Limited[(3)(4)(5)]	**(365 653 227)**	(97 475 754)
Amalahle Exploration Proprietary Limited[(3)]	**(10 950 579)**	(8 000 074)
Total carrying value of interest in subsidiary companies	**946 767 934**	957 272 188
Represented by the carrying value of the interest in:		
Interest in subsidiary companies	**946 767 934**	957 272 188
Keaton Mining Proprietary Limited	**650 089 107**	524 122 270
Labohlano Trading 46 Proprietary Limited	**47 707 339**	36 092 114
Keaton Administrative and Technical Services Proprietary Limited	**8 401 032**	2 417 957
Leeuw Mining and Exploration Proprietary Limited[(3)(4)]	**38 182 187**	154 576 978
Amalahle Exploration Proprietary Limited	**–**	1 561 588
Xceed Resources Limited	**202 140 972**	200 890 972
Neosho Trading 86 Proprietary Limited	**(2 873 043)**	37 610 309
Leeuw Braakfontein Colliery Proprietary Limited	**3 120 340**	–
Assets held-for-sale[(3)]	**–**	–
Leeuw Mining and Exploration Proprietary Limited	**–**	–
Amalahle Exploration Proprietary Limited	**–**	–

The directors of the company consider the carrying amount of the unlisted interests in subsidiaries to be a fair representation of the value on the investments given the various stages of development of the underlying assets.

The company has subordinated its claims against all loans, including preference share funding that existed on drawdown date in favour of Investec Bank Limited for the term facility, provided that these loans may be repaid at any time that dividend payments would be permitted.

(1) The company has issued a limited guarantee to Investec Bank Limited, supported by a pledge of shares in and claims from subsidiaries, for the term facility. Refer to note 24.

(2) The company impaired its investment in KATS as the intercompany receivables that KATS has with the discontinued operations (refer below) are no longer considered recoverable. The company calculated the recoverable amount (value in use) of the investment in KATS as R8.4 million, which resulted in an impairment charge of R14.8 million recognised in profit or loss.

(3) The Board of Directors committed to a plan to dispose of the Vaalkrantz operation in September 2015. In addition, a decision was taken to dispose of the Balgray Project and the Koudelager Project (both part of LME) as they are seen as life extensions to the Vaalkrantz operation as it will utilise the existing infrastructure on Vaalkrantz, as well as the Mooiklip Coal project (part of Amalahle). Refer to note 10 for additional information. As a result, the company's investment in LME and its subsidiaries and Amalahle were classified as held-for-sale. These investments were measured at fair value less costs to sell in terms of IFRS 5 at 31 March 2016. The fair value less costs to sell was determined based on the Sale of Shares and Claims Agreement with BER (refer to notes 10 and 41) as well as taking into account the fact that the mine has been placed on care and maintenance. The fair value less costs to sell of the disposal group was determined by management to be Rnil. This resulted in an impairment charge of R245.7 million recognised in profit or loss.

The Braakfontein Thermal Coal Project, held by LBC, a wholly owned subsidiary of LME, is specifically excluded from this transaction. LBC, which will be unbundled from LME, will become a direct wholly owned subsidiary of the company. The investment in Leeuw Mining and Exploration Proprietary Limited above represents the LME group which includes the investment in LBC. As LBC will not be sold by the company (will become a direct subsidiary) this portion of the investment was not recognised as assets held-for-sale.

(4) During the prior financial year, an impairment charge was recognised on Vaalkrantz assets of R56.5 million due to Vaalkrantz experiencing challenging geological conditions. This, coupled with depressed coal prices, increased costs and lower than expected yields, resulted in a critical re-review of the colliery's life-of-mine plan. As a result, the company's investment in LME and its subsidiaries was also tested for impairment. The company calculated the recoverable amount of this investment as R154.6 million, which resulted in an impairment charge of R97.5 million recognised in profit or loss. During the current period, a decision was taken to dispose of the investment in LME and its subsidiaries. Refer to note 10 for additional information.

(5) During the prior financial year, the company entered into a share purchase agreement with JPI Leeuw and Associates Proprietary Limited (JPI) to acquire 18% of the equity interest held by JPI in LME for a purchase consideration of R26 million. As at 31 March 2015, the acquisition of this equity interest was not yet effective and as such the purchase consideration paid up to 31 March 2015 of R25.4 million was accounted for as a prepayment. Refer to the note 18. At 31 March 2015, based on the impairment assessment performed on the company's investment in LME the purchase consideration paid for the additional 18% investment was not considered recoverable. On a company level, an impairment loss was recognised at 31 March 2015 for the full purchase consideration. On 30 September 2015, this transaction became effective. Refer to note 23. The investment in subsidiary was recognised together with the impairment allowance raised in the prior year of R25.4 million. Therefore, the movement in impairment of interest in the subsidiary companies line above includes the impairment recognised in profit or loss for the year of R260.5 million and this additional R25.4 million.

14 Intangible assets

	Exploration and evaluation assets			Other		
	Mineral and prospecting rights acquired R	Drilling expenses R	Other evaluation expenses R	Richards Bay Coal Terminal Quattro Scheme participation R	Computer software R	Total R
Group						
Cost						
31 March 2016						
Opening balance	**611 145 957**	**20 141 021**	**61 403 891**	**22 717 726**	**5 947 720**	**721 356 315**
Reclassification to assets held-for-sale (refer to note 19)	**(24 772 826)**	**(207 120)**	**(12 750 069)**	**(22 717 726)**	**–**	**(60 447 741)**
Additions	**–**	**250 777**	**4 172 320**	**–**	**571 800**	**4 994 897**
Closing balance	**586 373 131**	**20 184 678**	**52 826 142**	**–**	**6 519 520**	**665 903 471**
31 March 2015						
Opening balance	611 145 957	18 573 644	51 658 576	22 717 726	–	704 095 903
Additions	–	1 567 377	9 745 315	–	5 947 720	17 260 412
Closing balance	611 145 957	20 141 021	61 403 891	22 717 726	5 947 720	721 356 315
Accumulated amortisation and impairment losses						
31 March 2016						
Opening balance	**–**	**–**	**–**	**(4 922 175)**	**–**	**(4 922 175)**
Reclassification to assets held-for-sale (refer to note 19)	**–**	**–**	**–**	**4 922 175**	**–**	**4 922 175**
Amortisation	**–**	**–**	**–**	**–**	**(2 173 238)**	**(2 173 238)**
Impairment loss[1]	**(145 530 060)**	**–**	**(13 631 679)**	**–**	**–**	**(159 161 739)**
Closing balance	**(145 530 060)**	**–**	**(13 631 679)**	**–**	**(2 173 238)**	**(161 334 977)**
31 March 2015						
Opening balance	–	–	–	(3 407 661)	–	(3 407 661)
Amortisation	–	–	–	(1 514 514)	–	(1 514 514)
Closing balance	–	–	–	(4 922 175)	–	(4 922 175)
Carrying amount						
31 March 2016	**440 843 071**	**20 184 678**	**39 194 463**	**–**	**4 346 282**	**504 568 494**
31 March 2015	611 145 957	20 141 021	61 403 891	17 795 551	5 947 720	716 434 140

[1] *To date, the Leeuw Braakfontein Project (reported as a separate segment) has been evaluated on the basis of both an export and domestic thermal product operation. Continued depressed export coal pricing and a bleak medium-term view on the Richards Bay API4 index has had a material impact on the economics of Braakfontein. We continue to evaluate feasibility options around exclusive domestic supply. However, until the pricing and delivery schedule for such supply are firmed up, the economics of Braakfontein remain depressed in line with global seaborne coal prices. Taking into account the aforementioned information, using the updated life-of-mine plan of 17 years, market-related coal prices and a real discount rate of 13%, the group calculated the recoverable amount for LBC (using a value-in-use model) of R115.3 million, which resulted in an impairment charge of R159.2 million recorded in mining and related expenses in the statement of profit or loss. Also refer to note 3.1 for additional information disclosed.*

Notes to the financial statements continued

for the year ended 31 March 2016

	Group At 31 March 2016 R	Group At 31 March 2015 R	Company At 31 March 2016 R	Company At 31 March 2015 R
15 Cash				
15.1 Restricted cash				
Long-term restricted cash	**7 423 204**	10 780 613	**1 418 581**	1 418 581
These bank deposits are pledged and ceded against long-term environmental guarantees and creditor payment guarantees issued by/on behalf of the group.				
15.2 Cash and cash equivalents				
Short-term deposits	**959**	959	**959**	959
Cash in bank and on hand	**43 378 437**	72 545 434	**799 739**	2 159 542
	43 379 396	72 546 393	**800 698**	2 160 501

Cash and cash equivalents ceded as security for borrowings

All bank accounts and cash balances of Keaton Mining, with a carrying value of R39.9 million (2015: R36.3 million), have been ceded to Investec Bank Limited (refer to note 24).

	Group At 31 March 2016 R	Group At 31 March 2015 R	Company At 31 March 2016 R	Company At 31 March 2015 R
16 Restricted investments				
Investments held by environmental trust funds	**–**	13 401 587	**–**	–
Other restricted investments	**35 225 869**	54 903 919	**–**	–
Total restricted investments	**35 225 869**	68 305 506	**–**	–
Reconciliation of the movement in environmental trust funds:				
Balance at the beginning of the year	**13 401 587**	10 370 277	**–**	–
Reclassification to assets held-for-sale (refer to note 19)	**(13 401 587)**	–	**–**	–
Contributions made	**–**	1 912 464	**–**	–
Interest income	**–**	357 588	**–**	–
Dividend income	**–**	106 227	**–**	–
Investment costs	**–**	(473 654)	**–**	–
Fair value movement	**–**	1 128 685	**–**	–
Balance at the end of the year	**–**	13 401 587	**–**	–

These restricted investments are pledged as security for environmental rehabilitation guarantees issued by/on behalf of the group.

.

	Group		Company	
	At 31 March 2016 R	At 31 March 2015 R	**At 31 March 2016 R**	At 31 March 2015 R
16 Restricted investments *(continued)*				
Reconciliation of the movement in other restricted investments:[1]				
Balance at the beginning of the year	**54 903 919**	36 898 472	**–**	–
Reclassification to assets held-for-sale (refer to note 19)	**(10 782 785)**	–	**–**	–
Contributions made	**11 315 000**	12 933 572	**–**	–
Investments liquidated[2]	**(20 802 301)**	–	**–**	–
Interest income	**987 185**	856 511	**–**	–
Dividend income	**423 388**	410 945	**–**	–
Investment costs	**(1 278 371)**	(1 051 082)	**–**	–
Fair value movement	**459 834**	4 855 501	**–**	–
Balance at the end of the year	**35 225 869**	54 903 919	**–**	–

These restricted investments are pledged as security for environmental rehabilitation guarantees issued by/on behalf of the group.

[1] *Included in other restricted investments are Momentum unit trusts where the underlying funds invest in equity instruments and money market investments, both local and foreign. The unit trusts investments are fair value through profit or loss financial assets and are recognised at fair value. Income earned on the investments, consisting of dividend income and local and foreign interest, is reinvested.*

Also included in other restricted investments in the prior year is an investment relating to the Nedbank Bettabeta Green Exchange Traded Fund (BGreen ETF). The BGreen ETF tracks the Nedbank Green Index which has been developed by Nedbank Capital in line with its green principles and commitment to preserving the environment, and in response to the increased demand from environmentally conscious investors. The index consists of a selection of stocks from the top 100 largest South African companies listed on the JSE. The investment is a fair value through profit or loss financial asset and was recognised at fair value. This investment was liquidated in September 2015.

[2] *Based on current life-of-mine plans and contributions made to date, the group was in an overfunded position as advised by its guarantors, and subsequently liquidated some of its restricted investments.*

	Group		Company	
	At 31 March 2016 R	At 31 March 2015 R	**At 31 March 2016 R**	At 31 March 2015 R
17 Inventory				
Run-of-mine stockpiles	**19 498 928**	26 857 320	**–**	–
Finished product stockpiles	**5 987 368**	15 999 818	**–**	–
Consumables	**11 164 375**	11 253 339	**–**	–
Total inventory	**36 650 671**	54 110 477	**–**	–

All inventory balances of Keaton Mining of R36.7 million (2015: R35.7 million) have been ceded to Investec Bank Limited. Refer to note 24.

Notes to the financial statements continued

for the year ended 31 March 2016

	Group		Company	
	At 31 March 2016 R	At 31 March 2015 R	**At 31 March 2016 R**	At 31 March 2015 R
18 Trade and other receivables				
Financial assets				
Trade receivables	**99 476 103**	143 341 323	**–**	–
Allowance for impairment	**(196 618)**	(368 386)	**–**	–
Trade receivables – net	**99 279 485**	142 972 937	**–**	–
Other receivables [(1)]	**4 995 505**	6 832 581	**2 155 369**	617 471
Non-financial assets				
Value added tax receivable	**873 767**	4 255 309	**494 876**	467 546
Other receivables – net[(2)]	**–**	25 394 980	**–**	–
Other receivables	**–**	25 394 980	**–**	25 394 980
Impairment loss	**–**	–	**–**	(25 394 980)
	105 148 757	179 455 807	**2 650 245**	1 085 017
The ageing of trade receivables at the reporting date was:				
Current	**98 847 417**	116 951 158	**–**	–
Past due by one to 30 days	**20 425**	23 613 106	**–**	–
Past due by 31 to 60 days	**–**	1 870 242	**–**	–
Past due by 61 to 90 days	**–**	–	**–**	–
Past due by more than 90 days	**608 261**	906 817	**–**	–
	99 476 103	143 341 323	**–**	–
The ageing of the allowance for impairment at the reporting date was:				
Current	**–**	–	**–**	–
Past due by one to 30 days	**–**	–	**–**	–
Past due by 31 to 60 days	**–**	–	**–**	–
Past due by 61 to 90 days	**–**	–	**–**	–
Past due by more than 90 days	**196 618**	368 386	**–**	–
	196 618	368 386	**–**	–
Movement in the allowance for impairment:				
Balance at the beginning of the year	**368 386**	634 639	**–**	–
Reclassification to assets held-for-sale (refer to note 19)	**(171 768)**	–	**–**	–
Allowance for impairment	**–**	(266 253)	**–**	–
Balance at the end of the year	**196 618**	368 386	**–**	–

(1) Included in other receivables was an amount of R1.9 million receivable by the company from Nasonti Mining Proprietary Limited (Nasonti). Nasonti was the underground mining contractor at the group's Vaalkrantz operation. At 31 March 2016, the R1.9 million was fully impaired as it is no longer considered recoverable due to Nasonti's application for voluntary liquidation.

(2) During the 2015 financial year, the company entered into a share purchase agreement with JPI Leeuw and Associates Proprietary Limited (JPI) to acquire 18% of the equity interest held by JPI in LME for a purchase consideration of R26 million. As at 31 March 2015, the acquisition of this equity interest was not yet effective and as such the purchase consideration paid up to 31 March 2015 of R25.4 million was accounted for as a prepayment.

At 31 March 2015, based on the impairment assessment performed on the company's investment in LME, the purchase consideration paid for the additional 18% investment was not considered recoverable. Therefore, on a company level, an impairment loss was recognised at 31 March 2015 for the full purchase consideration. Refer to note 13 for additional information disclosed regarding the impairment assessment performed.

Based on past experience, the group believes that no impairment allowance is necessary in respect of fully performing receivables as the amount relates to customers that have a proven track record with the group.

Trade and other receivables ceded as security for borrowings

All trade and other receivable balances of Keaton Mining with a carrying amount of R99.5 million (2015: R127.5 million) have been ceded to Investec Bank Limited. Refer to note 24.

19 Disposal group held-for-sale

As disclosed in note 10, the Board committed to a plan to sell the Vaalkrantz operation, the Balgray Coal Project, the Koudelager Coal Project and the Mooiklip Coal Project (disposal group). The disposal group is accordingly presented as held-for-sale. At 31 March 2016, the disposal group comprised the following assets and liabilities:

	Notes	At 31 March 2016 R
Assets		
Property, plant and equipment	19.1	26 578 141
Intangible assets	19.2	5 961 689
Restricted investments	19.3	29 650 899
Inventory		4 633 734
Trade and other receivables	19.4	11 481 959
Cash and cash equivalents		5 505 916
		83 812 338
Liabilities		
Borrowings	19.5	72 234
Mine closure and environmental rehabilitation provision	19.6	34 648 900
Trade and other payables		28 786 616
Provisions	19.7	20 285 000
		83 792 750

An impairment loss of R22 million was recognised on property, plant and equipment (refer to note 19.1) and an impairment loss of R47.8 million was recognised on intangible assets (refer to note 19.2) in terms of IAS 36 immediately before the assets were classified as held-for-sale in terms of IFRS 5 in September 2015. The recoverable amount of R4.2 million was determined using fair value less costs to sell based on the offer received at arm's length from an unrelated party for the discontinued operations. The impairment losses were recognised in operating expenses (refer to note 10).

On 31 March 2016, an additional impairment loss of R16.1 million was recognised on remeasurement of the disposal group to fair value less costs to sell in terms of IFRS 5. The fair value less costs to sell was determined based on the Sale of Shares and Claims Agreement concluded at arm's length with an unrelated party, BER (refer to notes 10 and 41) as well as taking into account the fact that the Vaalkrantz operation has been placed on care and maintenance. The fair value less costs to sell of the disposal group was determined by management to be Rnil. Also refer to note 3.1 for additional information disclosed.

There are no cumulative income or expenses included in OCI relating to the disposal group.

Notes to the financial statements continued

for the year ended 31 March 2016

19 Disposal group held-for-sale *(continued)*

19.1 Property, plant and equipment

	Land, buildings and leasehold improvements R	Mine development R
Cost		
31 March 2016		
Opening balance – reclassified as assets held-for-sale	12 120 000	200 406 749
Additions	–	5 372 558
Change in estimates – environmental rehabilitation assets	–	(308 916)
Disposals	–	–
Closing balance	12 120 000	205 470 391
Accumulated depreciation and impairment losses		
31 March 2016		
Opening balance – reclassified as assets held-for-sale	(6 045 862)	(166 889 286)
Depreciation expense[1]	–	(1 302 731)
Impairment loss[2]	(5 781 505)	(19 584 328)
Disposals	–	–
Closing balance	(11 827 367)	(187 776 345)
Carrying amount		
31 March 2016	292 633	17 694 046

[1] Includes depreciation up to date of classification as assets held-for-sale on 30 September 2015.
[2] Includes impairment loss of R22 million recognised on 30 September 2015 in terms of IAS 36 and impairment loss of R14.3 million recognised on 31 March 2016 for remeasurement of the disposal group to fair value less costs to sell.

All plant and equipment, except leasehold improvements, are owned.

Additional disclosure for leased assets

The following assets are pledged as security for instalment sale and lease agreements:

	Mining equipment R	Computer equipment R	Total R
Cost	4 567 546	175 333	4 742 879
Accumulated depreciation and impairment losses	(4 285 127)	(131 682)	(4 416 809)
Carrying value	282 419	43 651	326 070

Insurance

All of the above assets, with the exception of land and mine development, are insured at approximate cost of replacement.

Land and buildings

Land and buildings consist of:

Remaining extent of portion 8 of the farm Langkrans 367, Vryheid, KwaZulu-Natal, measuring 61.0637ha

Remaining extent of portion 1 of the farm Langkrans 367, Vryheid, KwaZulu-Natal, measuring 464.3193ha

Remaining extent of portion 3 of the farm Bloemendal 18, Vryheid, KwaZulu-Natal, measuring 239.4230ha

Remaining extent of portion 2 of the farm Weltevreden 53, HT, Utrecht, KwaZulu-Natal, measuring 457.3486ha

Remaining extent of portion 1 of the farm Weltevreden 53, HT, Utrecht, KwaZulu-Natal, measuring 642.9136ha

Remaining extent of the farm Vaalkrantz 306, Vryheid, KwaZulu-Natal, measuring 607.4635ha

Portion 3 of the farm Rustplaas 165, HU, Vryheid, KwaZulu-Natal, measuring 171.3064ha

Portion 4 of the farm Rustplaas 165, HU, Vryheid, KwaZulu-Natal, measuring 85.6532ha

Portion 5 of the farm Rustplaas 165, HU, Vryheid, KwaZulu-Natal, measuring 324.151ha

	Assets under construction R	Plant and equipment R	Mine infrastructure R	Furniture and equipment R	Other R	Total R
	–	85 675 108	13 461 262	1 933 736	2 183 486	315 780 341
	411 548	1 302 000	1 276 591	15 978	244 242	8 622 917
	–	–	–	–	–	(308 916)
	–	–	–	(19 806)	–	(19 806)
	411 548	86 977 108	14 737 853	1 929 908	2 427 728	324 074 536
	–	(70 974 438)	(11 245 557)	(1 817 348)	(1 879 918)	(258 852 409)
	–	(767 434)	(119 861)	(44 619)	(82 258)	(2 316 903)
	(144 492)	(8 965 107)	(1 733 216)	(26 365)	(99 222)	(36 334 235)
	–	–	–	7 152	–	7 152
	(144 492)	(80 706 979)	(13 098 634)	(1 881 180)	(2 061 398)	(297 496 395)
	267 056	6 270 129	1 639 219	48 728	366 330	26 578 141

Notes to the financial statements continued
for the year ended 31 March 2016

	Exploration and evaluation assets			Other		
	Mineral and Prospecting Rights acquired R	Drilling expenses R	Other evaluation expenses R	Richards Bay Coal Terminal Quattro Scheme participation R	Computer software R	Total R
19 Disposal group held-for-sale *(continued)*						
19.2 Intangible assets						
Cost						
31 March 2016						
Opening balance – reclassified as assets held-for-sale	24 772 826	207 120	12 750 069	22 717 726	–	60 447 741
Additions	–	–	797 686	–	–	797 686
Closing balance	24 772 826	207 120	13 547 755	22 717 726	–	61 245 427
Accumulated amortisation and impairment losses						
31 March 2016						
Opening balance – reclassified as assets held-for-sale	–	–	–	(4 922 175)	–	(4 922 175)
Amortisation[1]	–	–	–	(757 258)	–	(757 258)
Impairment loss[2]	(24 772 826)	(207 120)	(7 586 066)	(17 038 293)	–	(49 604 305)
Closing balance	(24 772 826)	(207 120)	(7 586 066)	(22 717 726)	–	(55 283 738)
Carrying amount						
31 March 2016	–	–	5 961 689	–	–	5 961 689

[1] Includes amortisation up to date of classification as assets held-for-sale on 30 September 2015.
[2] Includes impairment loss of R47.8 million recognised on 30 September 2015 in terms of IAS 36 and impairment loss of R1.8 million recognised on 31 March 2016 for remeasurement of the disposal group to fair value less costs to sell.

	At 31 March 2016 R
19.3 Restricted investments	
Investments held by environmental trust funds	16 180 160
Other restricted investments	13 470 739
Total restricted investments	29 650 899
Reconciliation of the movement in environmental trust funds:[1]	
Balance at the beginning of the year – reclassified as assets held-for-sale	13 401 587
Contributions made	2 049 823
Interest income	416 752
Dividend income	165 281
Investment costs	(536 391)
Fair value movement	683 108
Balance at the end of the year	16 180 160

These restricted investments are pledged as security for environmental rehabilitation guarantees issued by/on behalf of the disposal group.

[1] The environmental trust funds are irrevocable trusts under the disposal group's control. Contributions to the trusts are invested in Sanlam and Momentum unit trusts where the underlying funds invest in equity instruments and money market investments, both local and foreign. The unit trusts investments are designated at fair value through profit or loss investments and recognised at fair value. These investments provide for the estimated cost of rehabilitation at the end of the life of the disposal group's mines. Income earned on the investments, consisting of dividend income, local and foreign interest and fair value adjustments, is reinvested.

	At 31 March 2016 R
19 Disposal group held-for-sale *(continued)*	
19.3 Restricted investments *(continued)*	
Reconciliation of the movement in other restricted investments:[(2)]	
Balance at the beginning of the year – reclassified as assets held-for-sale	10 782 785
Contributions made	2 149 323
Interest income	191 752
Dividend income	129 197
Investment costs	(225 492)
Fair value movement	443 174
Balance at the end of the year	13 470 739

These restricted investments are pledged as security for environmental rehabilitation guarantees issued by/on behalf of the disposal group.

(2) Included in other restricted investments are guarantees provided to Transnet for the rehabilitation of the railway siding at the Vaalkrantz Mine. Contributions to the fund are invested in Momentum unit trusts where the underlying funds invest in equity instruments and money market investments, both local and foreign. The unit trusts investments are fair value through profit or loss financial assets and are recognised at fair value. Income earned on the investments, consisting of dividend income and local and foreign interest, is reinvested.

	At 31 March 2016 R
19.4 Trade and other receivables	
Financial assets	
Trade receivables	6 484 970
Allowance for impairment	(1 700 444)
Trade receivables – net	4 784 526
Other receivables	1 980 157
Non-financial assets	
Value added tax receivable	4 717 276
	11 481 959
The ageing of trade receivables at the reporting date was:	
Current	3 248 489
Past due by one to 30 days	–
Past due by 31 to 60 days	–
Past due by 61 to 90 days	–
Past due by more than 90 days	3 236 481
	6 484 970
The ageing of the allowance for impairment at the reporting date was:	
Current	–
Past due by one to 30 days	–
Past due by 31 to 60 days	–
Past due by 61 to 90 days	–
Past due by more than 90 days	1 700 444
	1 700 444

Notes to the financial statements continued

for the year ended 31 March 2016

	At 31 March 2016 R
19 Disposal group held-for-sale *(continued)*	
19.4 Trade and other receivables *(continued)*	
The movement in the allowance for impairment:	
Balance at the beginning of the year – reclassified as assets held-for-sale	171 768
Allowance for impairment	1 528 676
Balance at the end of the year	1 700 444

Based on past experience, the group believes that no impairment allowance is necessary in respect of fully performing receivables as the amount relates to customers that have a proven track record with the group.

19.5 Borrowings

The disposal group entered into lease agreements with an information technology (IT) equipment supplier for the supply of computer equipment. These loans attract interest at 5% per annum compounded annually, and are repayable over a term of 36 months.

	At 31 March 2016 R
Borrowings	
Balance at the beginning of the year – reclassified as assets held-for-sale	124 802
Lease agreements concluded	16 120
Interest	5 076
Repayments	(73 764)
Balance at the end of the year	72 234
The future minimum payments on the instalment sale and lease agreements are as follows:	
Due within one year	75 336
Capital	72 234
Interest	3 102
Due between one and two years	–
Capital	–
Interest	–
Due between two and five years	–
Capital	–
Interest	–
Total	75 336
The maturity of borrowings is as follows:	
Current	72 234
Between one and two years	–
Between two and five years	–
Over five years	–
Total	72 234

	At 31 March 2016 R
19.6 Mine closure and environmental rehabilitation provision	
Balance at the beginning of the year – reclassified as assets held-for-sale	32 273 256
Increase in provision	2 375 644
Change in estimate recognised in the statement of financial position	(308 916)
Change in estimate recognised in profit or loss	(24 780)
Unwinding of discount	2 709 340
Balance at the end of the year	34 648 900

19 Disposal group held-for-sale *(continued)*

19.6 Mine closure and environmental rehabilitation provision *(continued)*

The disposal group's mining and exploration activities are subject to extensive environmental laws and regulations. These laws and regulations are continually changing and are generally becoming more restrictive. Estimated future reclamation costs are based principally on legal and regulatory requirements. The above is a reconciliation of the total liability for environmental rehabilitation.

Refer to note 3 of the accounting policies for the accounting estimates used and judgement applied in calculating rehabilitation provisions. The rehabilitation liability represents management's best estimate as at year-end. While the ultimate amount of rehabilitation costs to be incurred in the future is uncertain, the group has estimated that, based on current environmental and regulatory requirements, the total cost for the disposal group, in the current monetary terms, is approximately R37.4 million (2015: R34.7 million).

The group has guarantees in place relating to the environmental liabilities as follows:

	At 31 March 2016 R	At 31 March 2015 R
Guarantees		
Environmental rehabilitation guarantees issued to the Department of Mineral Resources (DMR)	**42 585 241**	39 108 172

These guarantees have been issued by third parties, R26.1 million in bank deposits, unit trust and exchange traded funds (included in restricted investments), as well as a limited indemnity by Keaton Energy is being held as security by these third parties. The disposal group is currently in process to increase its guarantees to the DMR due to the additional disturbances caused during the current financial year.

	At 31 March 2016 R
19.7 Provisions	
Stock loss provision	
Balance at the beginning of the year[1] – reclassified as assets held-for-sale	**24 659 987**
Insurance claim received[2]	**(4 374 987)**
Balance at the end of the year	**20 285 000**

[1] *Stock theft was discovered at Vaalkrantz during the 2015 financial year. A thorough investigation undertaken by multiple agencies pointed to collusion between employees and third parties. Criminal charges were laid against the employees. A provision for R24.7 million was raised to replace the stock that was sold to customers in anticipation of delivery.*

[2] *Insurance claim pay-out of R4.4 million was received in the current year as settlement of the abovementioned stock loss.*

Notes to the financial statements continued

for the year ended 31 March 2016

20 Stated capital

	Group and company	
	At 31 March 2016 Number of shares	At 31 March 2015 Number of shares
Authorised share capital		
Ordinary no par value shares	**750 000 000**	750 000 000

	Group and company		Group		Company	
	At 31 March 2016 Number of shares	At 31 March 2015 Number of shares	**At 31 March 2016 R**	At 31 March 2015 R	**At 31 March 2016 R**	At 31 March 2015 R
Stated capital						
Balance at the beginning of the year	**224 442 642**	224 310 979	**692 928 553**	692 928 553	**693 248 495**	692 928 553
Shares issued during the year[(1)(2)]	**67 551 614**	–	**159 697 224**	–	**159 697 224**	–
Share issue expenses[(1)]	**–**	–	**(2 575 170)**	–	**(2 575 170)**	–
Shares issued in terms of the share schemes during the year[(3)]	**–**	131 663	**–**	–	**–**	319 942
Balance at the end of the year	**291 994 256**	224 442 642	**850 050 607**	692 928 553	**850 370 549**	693 248 495

The directors are authorised, by resolution of the shareholders and until the forthcoming Annual General Meeting, to allot, issue and otherwise dispose of the unissued shares. This is, however, subject to the Listings Requirements of the JSE Limited. Also refer to the Directors' Report for more detail on an upcoming Annual General Meeting.

[(1)] 63 731 714 ordinary no par value shares were issued to Rutendo Mining Proprietary Limited (Rutendo Mining), in exchange for Rutendo Mining's 26% shareholding in Keaton Mining, at an issue price of R2.3638 per share totalling R150.6 million, net of transaction costs of R2.6 million. Refer to note 23 for additional information regarding this transaction.

[(2)] 3 819 900 ordinary no par value shares were issued to Moneybox Investments 156 Proprietary Limited (Moneybox), in exchange for Moneybox's 26% shareholding in Labohlano, at an issue price of R2.3687 per share totalling R9 million. Refer to note 23 for additional information regarding this transaction.

[(3)] In the prior year, 131 663 ordinary no par value shares were issued to employees as a result of share options exercised in terms of the 2007 share plan. The company received cash from its subsidiary for the shares issued. From a group perspective, the shares were issued for no consideration to the employees in terms of the share plan.

21 Share-based payment transactions

	Group		Company	
	At 31 March 2016 R	At 31 March 2015 R	**At 31 March 2016 R**	At 31 March 2015 R
Share-based payment reserve				
Balance at the beginning of the year	**26 546 123**	18 788 161	**18 656 503**	13 220 294
Share options expense arising from notional shares continued/granted during the year	**7 118 754**	7 757 962	**4 299 445**	5 436 209
Balance at the end of the year	**33 664 877**	26 546 123	**22 955 948**	18 656 503

21 Share-based payment transactions *(continued)*

2007 share plan

The group established a long-term performance incentive scheme, consisting of share appreciation rights (SARs), the objective of which is to recognise the contributions of staff to the group's financial position and performance and to retain key employees. In terms of the scheme, certain directors, employees and other third parties may receive a conditional right to a bonus award (conditional bonus award) equal to the increase in the value of a number of notional Keaton Energy ordinary shares (notional shares) between the date on which the Remuneration Committee of Keaton Energy approves the offer of the conditional bonus award to the end of the performance period (normally three years following the offer) applicable to the conditional bonus award.

The aggregate number of shares which may be allocated to the share plan on any day, when added to the total number of unexercised SARs, shall not exceed 43 799 138 shares. The limit applied to any one individual is 8 759 828 shares. The offer of SARs will be conditional upon achievement of performance targets as specified in the bonus award certificates, which is specific to each employee, and the minimum employment period.

Termination of employees' participation in the share plan is based on "no fault" and "fault" definitions.

Fault definitions

An award will lapse/be forfeited and revert back to the scheme and have no further force or effect on the earliest of:

- the date on which the performance targets (or a portion thereof) are not achieved, as determined by the Remuneration Committee; and
- the date a participant's employment with a member of the group terminates, if termination of employment occurs during the minimum employment period.

No fault definitions

In the event that a participant's employment with the group is terminated by reason of death, ill health, incapacity or redundancy, disposal of the majority of the issued shares or business of the participating company, the Remuneration Committee may in its absolute discretion:

- deem a *pro rata* portion of the bonus award to become unconditional and to be capable of being exercised within three months. The Remuneration Committee will take into consideration, among other things, the extent to which performance targets have been satisfied and the portion of minimum employment period which has expired; and
- allow the scheme to apply to the whole or a portion of the bonus award, which were made by the participant as though the individual had not ceased to be an employee.

Should the Remuneration Committee determine in its discretion that no portion of the participant's bonus award should become unconditional and be capable of being exercised, then the bonus award shall lapse upon termination of employment.

If a participant ceases to be an Executive Director or employee of a participating company for any reason and a bonus award shall already have become unconditional and shall not have lapsed for any reason before the date of cessation of employment, then the bonus award will lapse seven days after cessation of employment if it is not exercised before the expiry of that seven-day period.

The fair value of each notional share granted was estimated on the date of grant using the Black-Scholes option-pricing model. The cost is expensed over the vesting period. The Black-Scholes option-pricing model requires the input of subjective assumptions, including the expected term of the notional share award, share price volatility and applicable risk-free rate. Expected volatility is based on the historical average volatility of Keaton Energy's share price. These estimates involve inherent uncertainties and the application of management's judgement. In addition, the group is required to estimate the expected forfeiture rate and only recognise an expense for those notional shares expected to vest. As a result, if other assumptions had been used, the recognised share-based appreciation right expense could have been different from that reported.

The SARs have an expiry date of six years from the grant date and the offer price equals the closing market price of the underlying shares on the 10-day volume weighted average share price immediately preceding the grant date.

The terms and conditions of the long-term performance incentive scheme stipulate that the Remuneration Committee of the group will determine the most appropriate manner to settle the amount due, it being the intention that the settlement will normally occur by way of an allotment and issue of new shares and/or the purchase and transfer of existing shares. However, if circumstances require, the group is entitled (on approval of the Remuneration Committee) to settle the amount due by way of a direct cash payment in rand, net of taxation. These cash payments must be applied in the subscription of new or the purchase of issued shares of the company. During the 2015 financial year, two employees exercised their SARs at an exercise price of R2.52. No employees exercised any SARs in the 2016 financial year.

Notes to the financial statements continued
for the year ended 31 March 2016

21 Share-based payment transactions *(continued)*

The terms and conditions of the 2007 share plan grants to date (excluding lapsed grants) are as follows:

Grant date	1 July 2010	25 August 2010	24 August 2011	2 December 2011
Number of notional shares granted	225 048	2 535 272	6 538 237	3 126 473
Vesting conditions	Minimum employment period of three years and certain performance targets	Minimum employment period of three years and certain performance targets	Minimum employment period of three years and certain performance targets	Minimum employment period of three years and certain performance targets
Average contractual life of notional shares (excluding three-year exercise period after vesting)	3 years	3 years	3 years	3 years
Weighted average share price (R) at grant date (offer or exercise price)	5.20	4.67	2.50	2.78
Fair value (R) per notional share at grant date	1.85	1.66	1.11	1.31
Expected volatility factor	39.1%	39.1%	48.5%	44.1%
Expected dividends	N/A	N/A	N/A	N/A
Risk-free interest rate (based on government bonds)	7.9%	7.9%	6.2%	6.4%

	Group		Company	
	At 31 March 2016	At 31 March 2015	**At 31 March 2016**	At 31 March 2015
Number of share options				
Share options granted	**33 743 150**	33 743 150	**23 072 603**	23 072 603
Vested not exercised	**15 408 628**	11 534 389	**10 723 724**	7 822 526
Exercised	**826 860**	826 860	**–**	–
Unvested	**10 168 139**	14 042 378	**7 237 250**	10 138 448
Transferred to other group companies	**–**	–	**2 785 886**	2 785 886
Forfeited and lapsed	**7 339 523**	7 339 523	**2 325 743**	2 325 743
Vesting periods of unvested shares				
Within one year	**10 168 139**	3 874 239	**7 237 250**	2 901 198
One to two years	**–**	10 168 139	**–**	7 237 250
Two to three years	**–**	–	**–**	–
Total number of unvested shares	**10 168 139**	14 042 378	**7 237 250**	10 138 448

	Group		Company	
	Number of shares 2016	**Weighted average exercise price (R) 2016**	**Number of shares 2016**	**Weighted average exercise price (R) 2016**
Activity on options granted not yet exercised				
Balance at the beginning of the year	**25 576 767**	**2.46**	**17 960 974**	**2.46**
Options vested	**(3 874 239)**	**(3.28)**	**(2 901 198)**	**(2.50)**
Options vested not exercised	**3 874 239**	**3.28**	**2 901 198**	**2.50**
Balance at the end of the year	**25 576 767**	**2.46**	**17 960 974**	**2.46**

	2 December 2011	14 December 2011	15 December 2011	9 May 2012	6 June 2012	3 September 2012	12 June 2013
	1 041 526	410 614	905 797	78 671	4 291 138	278 656	12 311 389
	Minimum employment period of two years and certain performance targets	Minimum employment period of three years and certain performance targets	Minimum employment period of three years and certain performance targets	Minimum employment period of three years and certain performance targets	Minimum employment period of three years and certain performance targets	Minimum employment period of three years and certain performance targets	Minimum employment period of three years and certain performance targets
	2 years	3 years	3 years	3 years	3 years	3 years	3 years
	2.78	2.74	2.74	2.86	3.34	2.52	1.44
	0.65	1.25	1.24	1.60	1.72	1.02	0.69
	44.1%	44.3%	44.3%	42.3%	42.6%	45.6%	57.3%
	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	6.4%	6.7%	6.7%	6.7%	7.2%	6.1%	6.8%

	Group		Company	
	Number of shares 2015	Weighted average exercise price (R) 2015	Number of shares 2015	Weighted average exercise price (R) 2015
Activity on options granted not yet exercised				
Balance at the beginning of the year	28 924 877	2.14	18 321 599	2.24
Options granted	–	–	–	–
Options vested	(7 668 963)	(2.64)	(6 215 913)	(2.67)
Options vested not exercised	6 842 103	2.66	6 215 913	2.67
Options forfeited and lapsed	(2 521 250)	(1.72)	(360 625)	(2.06)
Balance at the end of the year	25 576 767	2.46	17 960 974	2.46

	Number of shares	**Option price R**	**Remaining life (years)**
List of options granted not yet vested (listed by grant date)			
12 June 2013	**10 168 139**	**1.44**	**0.00**
	10 168 139		

Notes to the financial statements continued

for the year ended 31 March 2016

21 Share-based payment transactions *(continued)*

2013 share plan

The group established a long-term performance incentive scheme, consisting of a performance shares plan (PSP), a restricted shares plan (RSP) and share appreciation rights (SARs), the objective of which is to attract, motivate, reward and retain participants who are able to influence the performance of the group, on a basis which aligns their interests with those of the company's shareholders. In terms of the scheme, certain directors and employees may receive a conditional right to shares subject to the achievement of certain performance conditions.

The PSP vests subject to the achievement of two performance conditions, a non-market performance condition based on the company's performance scorecard and a market performance condition based on the performance of Keaton Energy relative to 11 other peer companies. The awards will vest at the end of the three-year performance period.

The RSP has a three-year restricted period and vests immediately at the end of this period.

The SAR awards will vest in equal thirds on the third, fourth and fifth anniversaries on the date on which such allocation was made.

The aggregate number of shares which may be allocated to the share plan shall not exceed 10 000 000 shares. The limit applied to any one individual is 1 500 000 shares.

Termination of employees' participation in the share plan is based on "no fault" and "fault" definitions.

Fault definitions

An award will lapse/be forfeited and have no further force or effect on the earliest of:

- the date on which the performance targets (or a portion thereof) are not achieved, as determined by the Remuneration Committee; and
- the date a participant's employment with a member of the group terminates, if termination of employment occurs during the minimum employment period.

No fault definitions

In the event that a participant's employment with the group is terminated by reason of death, ill health, incapacity or redundancy, retirement after retirement date, mutually agreed termination of employment or disposal of the majority of the issued shares or business of the participating company, the Remuneration Committee may in its absolute discretion:

- deem a *pro rata* portion of the award to become unconditional and to be capable of being exercised within three months. The Remuneration Committee will take into consideration, among other things, the extent to which performance targets have been satisfied and the portion of minimum employment period which has expired; and
- allow the scheme to apply to the whole or a portion of the award, which were made by the participant as though the individual had not ceased to be an employee.

The fair value of each award granted was estimated on the date of grant using the following methodology:

PSP company performance scorecard – given that there are no dividends, this portion of the PSP was valued by multiplying the share price on grant date with the vesting percentage pertaining to the company performance score given, per grant.

PSP total shareholder return (TSR) scorecard – this portion of the PSP was valued using the Monte Carlo simulation method. The TSR index levels were simulated using a Geometric Brownian Motion (GBM), over the three-year performance period. Keaton Energy's share price is also simulated based on the TSR of Keaton Energy's simulated TSR index level. The fair value was then determined by multiplying Keaton Energy's share price by the vesting percentage and discounting the expected future share price to the grant date.

RSP – the value was calculated as the share price on the grant date less the present value of expected future dividends forfeited over the vesting period. However, as there are no dividends the fair value is determined to be the share price on grant date.

SARs – the fair value was calculated on the date of grant using the Black-Scholes option-pricing model. The cost is expensed over the vesting period. The Black-Scholes option-pricing model requires the input of subjective assumptions, including the expected term of the notional share award, share price volatility and applicable risk-free rate. Expected volatility is based on the historical average volatility of Keaton Energy's share price.

These estimates involve inherent uncertainties and the application of management's judgement. In addition, the group is required to estimate the expected forfeiture rate and only recognise an expense for those notional shares expected to vest. As a result, if other assumptions had been used, the recognised share-based payment expense could have been different from that reported.

The terms and conditions of the long-term performance incentive scheme stipulate that the Remuneration Committee of the group will determine the most appropriate manner to settle the amount due, it being the intention that the settlement will normally occur by way of an allotment and issue of new shares and/or the purchase and transfer of existing shares. However, if circumstances require, the group is entitled (on approval of the Remuneration Committee) to settle the amount due by way of a direct cash payment in rand, net of taxation. These cash payments must be applied in the subscription of new or the purchase of issued shares of the company.

21 Share-based payment transactions *(continued)*

The terms and conditions of the 2013 share plan grants to date (excluding lapsed grants) are as follows:

	PSP – total shareholder return	PSP – company performance scorecard	RSP – restricted share plan	PSP – total shareholder return	PSP – company performance scorecard	RSP – restricted share plan	SAR – share appreciation rights
Grant date	25 June 2014	25 June 2014	25 June 2014	22 June 2015	22 June 2015	22 June 2015	22 June 2015
Number of options granted	1 028 070	1 028 070	1 494 855	869 708	869 708	1 012 950	1 741 015
Vesting conditions	Minimum employment period of three years and certain performance targets	Minimum employment period of three years and certain performance targets	Minimum employment period of three years and certain performance targets	Minimum employment period of three years and certain performance targets	Minimum employment period of three years and certain performance targets	Minimum employment period of three years and certain performance targets	Minimum employment period of between three and five years and certain performance targets
Average contractual life of options	3 years	3 years	3 years	3 years	3 years	3 years	Between three and five years
Weighted average share price (R) at grant date (offer or exercise price)	2.82	2.82	2.82	1.32	1.32	1.32	1.32
Fair value (R) per option at grant date	5.85	2.82	2.82	1.30	1.32	1.32	0.46
Expected dividends	N/A	N/A	N/A	N/A	N/A	N/A	N/A

	Group		Company	
	At 31 March 2016	At 31 March 2015	**At 31 March 2016**	At 31 March 2015
Number of share options				
Share options granted	**8 044 375**	3 550 995	**3 879 954**	1 540 267
Unvested	**7 089 419**	2 596 039	**3 879 954**	1 540 267
Forfeited and lapsed	**954 956**	954 956	**–**	–
Vesting periods of unvested shares				
Within one year	**–**	–	**–**	–
One to two years	**2 596 039**	–	**1 540 267**	–
Two to four years	**4 493 380**	2 596 039	**2 339 687**	1 540 267
Total number of unvested shares	**7 089 419**	2 596 039	**3 879 954**	1 540 267

	Group		Company	
	Number of shares 2016	**Weighted average exercise price (R) 2016**	**Number of shares 2016**	**Weighted average exercise price (R) 2016**
Activity on options granted not yet exercised				
Balance at the beginning of the year	**2 596 039**	**3.75**	**1 540 267**	**3.79**
Options granted	**4 493 380**	**0.98**	**2 339 687**	**1.04**
Balance at the end of the year	**7 089 419**	**2.00**	**3 879 954**	**2.13**

Notes to the financial statements continued

for the year ended 31 March 2016

21 Share-based payment transactions *(continued)*

	Group		Company	
	Number of shares 2015	Weighted average exercise price (R) 2015	Number of shares 2015	Weighted average exercise price (R) 2015
Activity on options granted not yet exercised				
Balance at the beginning of the year	–	–	–	–
Options granted	3 550 995	3.70	1 540 267	3.79
Options forfeited and lapsed	(954 956)	(3.56)	–	–
Balance at the end of the year	2 596 039	3.75	1 540 267	3.79

	Number of shares	Remaining life (years)
List of options granted not yet vested (listed by grant date)		
25 June 2014	2 596 039	1.20
22 June 2015	4 493 380	2.20
	7 089 419	

	Group		Company	
	Year ended 31 March 2016 R	Year ended 31 March 2015 R	**Year ended 31 March 2016 R**	Year ended 31 March 2015 R
Share-based payment expense recognised				
2007 share plan	**2 753 853**	5 403 453	**1 661 846**	4 023 499
2013 share plan	**4 364 901**	2 354 509	**2 637 599**	1 412 710
	7 118 754	7 757 962	**4 299 445**	5 436 209

	Group		Company	
	At 31 March 2016 R	At 31 March 2015 R	**At 31 March 2016 R**	At 31 March 2015 R
22 Other reserves				
Purchase price adjustment	**(30 751 111)**	(30 751 111)	**(30 751 111)**	(30 751 111)
Share-based payment adjustment transferred from share premium	**12 000 000**	12 000 000	**12 000 000**	12 000 000
Share-based payment reserve relating to the issue of shares at a discount[1]	**37 610 309**	37 610 309	**37 610 309**	37 610 309
Foreign currency translation reserve	**2 066 139**	225 319	**–**	–
	20 925 337	19 084 517	**18 859 198**	18 859 198

[1] *Share-based payment reserve relating to the issue of shares at a discount*

The share-based payment reserve relates to the issue of shares at a discount to its fair value, issued to Plusbay Limited, as part of the Xceed Resources Limited (Xceed) acquisition in 2014. The shares were issued at R1.778 per share, with the fair value of these shares, at recording date in terms of IFRS 2, being equal to R2.93 per share.

23 Change in interests in subsidiaries

During the year, the company acquired the following additional interests in subsidiaries:

	Leeuw Mining and Exploration Proprietary Limited	Amalahle Exploration Proprietary Limited	Labohlano Trading 46 Proprietary Limited	Keaton Mining Proprietary Limited*	**Total**
Additional % interest acquired	26%	26%	26%	26%	
Effective date	30 September 2015	7 August 2015	11 August 2015	13 November 2015	
Consideration paid to NCI	38 490 237	1 000 000	10 548 198	156 649 026	**206 687 461**
Cash	38 490 237	1 000 000	1 500 000	6 000 000	**46 990 237**
Shares issued (refer to note 20)	–	–	9 048 198	150 649 026	**159 697 224**
Carrying amount of NCI acquired	(40 588 803)	(3 536 563)	2 440 078	(69 922 925)	**(111 608 213)**
Decrease in equity attributable to owners of the group	(79 079 040)	(4 536 563)	(8 108 120)	(226 571 951)	**(318 295 674)**

* *As at 31 March 2016, R3 million of the cash purchase consideration was paid with the remaining R3 million repayable in monthly instalments of R1 million in terms of the agreement with the non-controlling shareholders.*

24 Borrowings

Investec Bank Limited – loan

On 17 January 2014, Keaton Mining (cedent or borrower) concluded a facility agreement with Investec Bank Limited acting through its corporate and institutional banking division (lender or arranger) to settle the project finance facility with Nedbank Limited and to partially fund the acquisition of Xceed. The original loan facility comprised a term facility of R300 million and a working capital facility of R50 million.

During February 2016, Keaton Mining and Investec Bank Limited amended some of the terms of the existing facility agreement:

- The term facility was increased from R300 million to R320 million.
- The working capital facility was reduced from R50 million to R20 million.
- Compliance to debt covenants are to be performed quarterly (previously bi-annually).
- The debt to EBITDA ratio was reduced to a maximum of 2.5 (previously 4).
- Current assets to current liabilities ratio was removed.
- A minimum cash balance of R20 million is to be maintained per quarter.
- Distributions to companies within the Keaton group have been limited to R18 million per quarter.

At reporting date, R320 million of the term facility had been drawn. The loan bears interest at the three-month JIBAR plus a margin of 4% (interest rate). Commitment fees of 1% annually of undrawn facilities applies relating to the first R300 million and 1.2% annually to the remaining R20 million, which is payable to the lender. The facility is repayable in quarterly payments which commenced on 31 July 2014 and end on 31 October 2018. Total interest accrued for the year ended 31 March 2016 amounted to R22.9 million (2015: R28.2 million). In the event that the borrower defaults, interest will be levied at a margin of 2% above the interest rate. In the event that the group's EBITDA on a six-monthly basis does not exceed R200 million, the interest rate will be increased by a margin of 0.5% until such time that the group again achieves the targeted EBITDA.

At reporting date, R5.5 million (2015: R5.5 million) of the working capital facility had been drawn. The facility bears interest at the one-month JIBAR plus a margin of 3.75%. Total interest accrued for the year ended 31 March 2016 amounted to R0.6 million (2015: R0.04 million). Commitment fees of 0.75% annually of undrawn facilities applies, which is payable to the lender. The working capital facility is renewable annually.

Various guarantees, representations, warranties, undertakings, cessions, indemnities and pledges, normal to these financing arrangements, have been given by the borrower, KATS (guarantor) and Keaton Energy (guarantor) to the lender. These include:

The guarantors' guarantees, the full, due, proper and timeous performance of all the guaranteed financial obligations of the borrower. The guarantors have also subordinated any claims they have against the borrower in favour of the lender until such time as all obligations of the borrower in terms of the financing facility have been discharged finally and in full.

As continuing covering security for the due compliance by the borrower with all obligations the following security exist:

- Registration of general and special notarial bonds over all moveable assets owned by the borrower.
- Registration of mortgage bonds over all immovable properties owned by the borrower, to the extent legally possible.
- Registration of mortgage bonds over all Mining Rights and Prospecting Rights, to the extent possible.
- Cession of all bank accounts and investments of the borrower.
- Cession in *securitatem debiti* of all existing and future debtors.
- Cession of all insurance policies and insurance proceeds of the borrower.

Notes to the financial statements continued

for the year ended 31 March 2016

24 Borrowings *(continued)*

The debt covenant tests for the group are as follows:

Maximum total debt to equity	1:1
Loan life cover ratio (minimum)	1.5:1
Reserve tail ratio (minimum)	25%
Debt service cover ratio (minimum)	1.3:1
Maximum total debt to EBITDA	2.5:1
Minimum cash balance (quarterly basis)	R20 million
Maximum distributions to the group (per quarter)	R18 million

The debt covenant tests were performed bi-annually during the year and will be performed quarterly from March 2016. At 31 March 2016 and 2015, there were no breaches of the covenants.

Industrial Development Corporation (IDC) – loan agreement

LME entered into a loan agreement with the IDC during 2004 for further development of its Vaalkrantz Mine. LME defaulted on the loan when it failed to make payment to the IDC in terms of the loan agreement prior to the 2011 financial year. During the 2011 financial year, Keaton Energy refinanced LME and concluded an agreement with the IDC whereby the IDC agreed to reschedule repayment terms on the loan.

In terms of the revised loan agreement, the loan was repayable in seven equal six-monthly instalments of R935 817 and a final instalment of R435 795 which commenced on 1 December 2012. The loan attracted interest at prime plus 2.5% which was payable monthly in arrears. The loan was secured by a cession and pledge by the company of so many ordinary shares in LME constituting 20% of the issued share capital. The loan was further secured by a first mortgage bond over the Surface Rights, a general notarial bond over all moveable assets, excluding the coal washing plant, and a special notarial bond over other moveable assets.

The loan was settled in full on 1 July 2014.

Industrial Development Corporation (IDC) – LME preference shares

During November 2004, the IDC subscribed to 60 cumulative redeemable preference shares with a par value of R1 and a premium of R127 082 in LME. In terms of the agreement, LME had to pay on each dividend date the relevant preference dividend and start to redeem the preference shares in equal instalments in the 2008 financial year. LME defaulted when it failed to make payment to the IDC in terms of the preference share agreement.

During the 2011 financial year, the IDC, similarly to the loan agreement above, agreed to reschedule repayment terms on the preference shares when Keaton Energy refinanced LME, and an addendum to the preference shares agreement was concluded. In terms of the addendum, these shares are entitled to a preference dividend at a coupon rate of 14%, so as to provide the IDC with a real internal rate of return of 8% over the term of the agreement, with the understanding that any shortfall or excess be corrected on the "terminal redemption date" being 31 October 2015.

Dividends are compounded and payable quarterly. Payment of dividends are, however, dependent on LME's operational cash flow requirements, but in any event is payable no later than the terminal redemption date, together with the redemption of the cumulative preference shares. The preference shares and accumulated dividends are secured by a cession and pledge by the company of so many ordinary shares in LME constituting 20% of the issued share capital. In addition to the redemption of the preference shares and accumulated dividends, LME will also pay the IDC an amount linked to the share price of Keaton Energy.

Due to LME's operational cash flow difficulties, the liability was not settled on 31 October 2015 as required by the agreement. During the current year, the group entered into a Sale of Shares and Claims Agreement with BER on or about 11 February 2016 (refer to note 10). The IDC preference shares were specifically excluded from the sale and the group will therefore take over this liability from LME when the sale becomes effective. The group is in the process of negotiating revised terms of settlement of this liability with the IDC.

24 Borrowings *(continued)*

Vitol SA – US dollar loan

During July 2008, LME entered into a coal sale agreement with Vitol SA for the supply of 500 000 tonnes of coal at a rate of 22 400 tonnes per month. This agreement has a prefinance loan clause where Vitol SA paid an amount of USD5.5 million to LME to assist with the development of the Braakfontein Mine within LBC and to enable LME to meet its obligations to supply coal under the agreement.

This loan bears interest at the one-year USD LIBOR plus a margin of 3% prior to the commencement of coal supply, with an alternate margin of 2% once coal supply has commenced. The loan is repayable by reducing the sales price with USD12 per tonne of coal supplied to Vitol SA.

Due to the fact that production has not commenced at the Braakfontein Mine, the repayment terms were amended during the current year. The loan will be repaid in monthly instalments of USD0.1 million, effective from 30 September 2015.

The loan is secured by a pledge of all interest (shares and claims on the loan account) held by LME in LBC, as well as security cession of current and future right, title and interest in receivables and cash generated by sale of coal from LBC, as well as all Surface Rights relating to LBC. Total repayments of R10.8 million were made during the current financial year (2015: R5.7 million).

Gunvor SA – US dollar loan

During the 2014 financial year, the company entered into a coal sale agreement with Gunvor SA for the supply of 600 000 tonnes of coal to be delivered from the group's Moabsvelden Project over a 22-month period from 1 January 2015 to 31 October 2016. This agreement had a prefinance loan clause where Gunvor SA paid an amount of USD4 million to the company to assist with the development of the Moabsvelden Project within Neosho Trading 86 Proprietary Limited (Neosho) and to enable the company to meet its obligations to supply coal under the agreement.

As at 31 March 2014, the group recognised a receivable of R37.6 million which represented the discount to the fair value of its shares issued to Plusbay Limited, a wholly owned subsidiary of Gunvor Group Limited (as part of the acquisition of Xceed Resources Limited which included Neosho) which was accounted for as a share-based payment (refer to note 22). The discount was recognised as an asset as it then related to future financing to be obtained in the form of the USD4 million prepayment for coal.

During the 2015 financial year, the prepayment of USD4 million (R43 million) was received by Neosho from Gunvor SA, with the difference of R5.4 million recognised as deferred income on group level, relating to the coal to be delivered to Gunvor SA, once production at the Moabsvelden Project commenced.

In terms of the coal sale agreement the prepayment of USD4 million is immediately repayable to Gunvor SA, should Moabsvelden fail to commence with production and subsequently fail to deliver coal to Gunvor SA by 31 December 2015. Due to delays beyond the control of the group, being the granting of an integrated water use licence and the conclusion of a coal supply agreement with Eskom, production could not commence by 31 December 2015 as required. A financial liability therefore had to be recognised at 31 December 2015 at fair value of R66.9 million. The prepayment is repayable plus interest at a nominal rate of 5.31% compounded monthly in arrears. Total interest accrued for the year ended 31 March 2016 amounted to R0.9 million.

Other borrowings

One of the subsidiaries in the group, KATS, entered into lease agreements with an IT equipment supplier for the supply of computer equipment. These loans attract interest at 5% per annum compounded annually, and are repayable over a term of 36 months.

Notes to the financial statements continued

for the year ended 31 March 2016

	Group		Company	
	At 31 March 2016 R	At 31 March 2015 R	**At 31 March 2016 R**	At 31 March 2015 R
24 Borrowings *(continued)*				
Interest-bearing borrowings				
Non-current borrowings				
Investec Bank Limited – Loan	**130 247 791**	184 803 934	**–**	–
Balance at the beginning of the year	**184 803 934**	249 731 047	**–**	–
Drawdown	**20 000 000**	–	**–**	–
Interest	**22 885 531**	28 220 365	**–**	–
Repayments (interest and capital)	**(91 490 316)**	(72 743 239)	**–**	–
Issue costs	**(350 000)**	–	**–**	–
Amortisation of issue costs	**999 877**	1 329 429	**–**	–
Net adjustments to current portion	**(6 601 235)**	(21 733 668)	**–**	–
Investec Bank Limited – Working capital facility (WCF)	**–**	–	**–**	–
Balance at the beginning of the year	**–**	–	**–**	–
Drawdown	**–**	5 500 000	**–**	–
Interest	**564 103**	38 378	**–**	–
Net adjustments to current portion	**(564 103)**	(5 538 378)	**–**	–
Gunvor SA – Loan	**–**	–	**–**	–
Balance at the beginning of the year	**–**	–	**–**	–
Initial recognition of financial liability	**66 943 389**	–	**–**	–
Interest	**913 399**	–	**–**	–
Foreign exchange gain	**(2 569 112)**	–	**–**	–
Net adjustments to current portion	**(65 287 676)**	–	**–**	–
Industrial Development Corporation – Loan	**–**	–	**–**	–
Balance at the beginning of the year	**–**	2 338 168	**–**	–
Interest	**–**	121 198	**–**	–
Repayments (interest and capital)	**–**	(4 331 000)	**–**	–
Net adjustments to current portion	**–**	1 871 634	**–**	–
Industrial Development Corporation – LME preference shares	**–**	–	**–**	–
Balance at the beginning of the year	**–**	27 989 417	**–**	–
Dividends accrued	**4 978 146**	4 183 696	**–**	–
Net adjustments to current portion	**(4 978 146)**	(32 173 113)	**–**	–
Vitol SA – Loan	**59 207 937**	66 665 511	**–**	–
Balance at the beginning of the year	**66 665 511**	61 556 110	**–**	–
Interest	**2 937 858**	2 235 181	**–**	–
Repayments (interest and capital)	**(10 775 786)**	(5 696 384)	**–**	–
Foreign exchange loss	**15 323 399**	8 570 604	**–**	–
Net adjustments to current portion	**(14 943 045)**	–	**–**	–
Other borrowings	**149 669**	271 468	**–**	–
Balance at the beginning of the year	**271 468**	223 029	**–**	–
Reclassification to assets held-for-sale (refer to note 19)	**(124 802)**	–	**–**	–
Lease agreements concluded	**233 118**	382 940	**–**	–
Interest	**21 999**	24 124	**–**	–
Repayments	**(319 324)**	(269 694)	**–**	–
Net adjustments to current portion	**67 210**	(88 931)	**–**	–
Total non-current borrowings	**189 605 397**	251 740 913	**–**	–

	Group		Company	
	At 31 March 2016 R	At 31 March 2015 R	**At 31 March 2016 R**	At 31 March 2015 R
24 Borrowings *(continued)*				
Current borrowings				
Investec Bank Limited – Loan	**77 984 594**	71 383 359	**–**	–
Investec Bank Limited – WCF	**6 102 481**	5 538 378	**–**	–
Gunvor SA – Loan	**65 287 676**	–	**–**	–
Vitol SA – Loan	**14 943 045**	–	**–**	–
Industrial Development Corporation – LME preference shares	**37 151 259**	32 173 113	**–**	–
Instalment sale agreements with other borrowers	**213 248**	280 458	**–**	–
Total current borrowings	**201 682 303**	109 375 308	**–**	–
Total interest-bearing borrowings	**391 287 700**	361 116 221	**–**	–
The future minimum payments on the instalment sale and lease agreements are as follows:				
Due within one year	**225 905**	300 126	**–**	–
Capital	**213 248**	280 458	**–**	–
Interest	**12 657**	19 668	**–**	–
Due between one and two years	**124 547**	212 630	**–**	–
Capital	**120 564**	204 545	**–**	–
Interest	**3 983**	8 085	**–**	–
Due between two and five years	**29 409**	67 995	**–**	–
Capital	**29 105**	66 923	**–**	–
Interest	**304**	1 072	**–**	–
	379 861	580 751	**–**	–
The maturity of borrowings is as follows:				
Due within one year	**201 682 303**	109 375 308	**–**	–
Between one and two years	**90 027 998**	67 347 334	**–**	–
Between two and five years	**99 577 399**	184 393 579	**–**	–
Over five years	**–**	–	**–**	–
	391 287 700	361 116 221	**–**	–

Notes to the financial statements continued

for the year ended 31 March 2016

	Group		Company	
	At 31 March 2016 R	At 31 March 2015 R	**At 31 March 2016 R**	At 31 March 2015 R
25 Financial liabilities				
25.1 Non-current financial liabilities				
Financial guarantee contracts issued	**–**	–	**9 265 769**	14 319 826
	–	–	**9 265 769**	14 319 826
25.2 Current financial liabilities				
IDC equity-linked call option	**–**	67 816	**–**	–
Financial guarantee contracts issued	**–**	–	**5 054 057**	5 054 057
	–	67 816	**5 054 057**	5 054 057

Financial guarantee contracts issued

The company has issued a limited guarantee to Investec Bank Limited, supported by a pledge of shares in and claims from subsidiaries, for the term facility. Refer to notes 13 and 24. The amount recognised for the financial guarantee contract represents the amount initially recognised less cumulative amortisation.

IDC equity-linked call option

In addition to the rescheduled repayment terms relating to the preference shares held by the IDC in LME (refer to note 24), the IDC and LME also agreed to the payment of an additional amount. The additional amount is a derivative financial instrument, the host of which being the redeemable cumulative preference shares.

The value of the option is dependent on a factor of between one and five, which is linked to the date the preference shares are likely to be redeemed. The factor is multiplied by an agreed base price and also multiplied by the difference between the closing price of the holding company's shares trading on the JSE on redemption date and the strike price of R4.32 offered to the IDC.

The option under consideration was valued by independent professional valuers, using a finite difference scheme for valuation. Assumptions used to value the option includes a probability linked to each of the likely redemption periods, the spot share price of the holding company on date of valuation, a term structure with JIBAR, FRA and swap data as inputs and volatility. The movement on the option is recognised in profit or loss. The option expired on 31 October 2015.

	Group		Company	
	At 31 March 2016 R	At 31 March 2015 R	At 31 March 2016 R	At 31 March 2015 R
26 Mine closure and environmental rehabilitation provision				
Balance at the beginning of the year	**270 058 375**	215 181 397	**–**	–
Reclassification to assets held-for-sale (refer to note 19)	**(32 273 256)**	–	**–**	–
Increase in provision	**25 686 843**	54 876 978	**–**	–
Additional provision due to new disturbances allocated to property, plant and equipment	**9 346 659**	41 857 642	**–**	–
Change in estimate recognised in profit or loss	**(4 557 835)**	(4 669 408)	**–**	–
Unwinding of discount (refer to note 8)	**20 898 019**	17 688 744	**–**	–
Balance at the end of the year	**263 471 962**	270 058 375	**–**	–

The group's mining and exploration activities are subject to extensive environmental laws and regulations. These laws and regulations are continually changing and are generally becoming more restrictive. Estimated future reclamation costs are based principally on legal and regulatory requirements. The above is a reconciliation of the total liability for environmental rehabilitation.

Refer to note 3 of the accounting policies for the accounting estimates used and judgement applied in calculating rehabilitation provisions. The rehabilitation liability represents management's best estimate as at year-end. While the ultimate amount of rehabilitation costs to be incurred in the future is uncertain, the group has estimated that, based on current environmental and regulatory requirements, the total cost for the mines, in the current monetary terms, is approximately R364.6 million (2015: R315.3 million) for continuing operations.

The group intends to finance the ultimate rehabilitation costs from the money invested in restricted funds (refer to notes 15 and 16), ongoing contributions, as well as the proceeds on sale of assets at the time of mine closure. The group has guarantees in place relating to the environmental liabilities for continuing operations as follows:

	Group	
	At 31 March 2016 R	At 31 March 2015 R
Guarantees		
Environmental rehabilitation guarantees issued to the DMR for continuing operations	**99 065 900**	97 895 806

These guarantees have been issued by third parties, R38.1 million (2015: R39.3 million) in bank deposits, unit trust and exchange traded funds (included in restricted cash – note 15 and restricted investments – note 16), as well as a limited indemnity by both Keaton Energy and Keaton Mining are being held as security by these third parties. The company is currently in process to increase its guarantees to the DMR due to the additional disturbances caused during the current financial year.

Notes to the financial statements continued

for the year ended 31 March 2016

	Group At 31 March 2016 R	Group At 31 March 2015 R
27 Vendor liability and provisions		
27.1 Vendor liability		
Balance at the beginning of the year	**31 768 646**	30 575 067
Discount on provision unwound through profit or loss (refer to note 8)	**3 618 261**	1 000 379
Change in estimate recognised in profit or loss	**(5 161 366)**	193 200
Balance at the end of the year	**30 225 541**	31 768 646

Xceed is required to make payments in cash to the founding shareholders of the Moabsvelden Project for the acquisition of 74% of the issued share capital of Neosho. These payments are due at various stages of project development in accordance with a schedule of performance milestones. The performance milestones, their status at 31 March 2016 (and 31 March 2015) and their values at 31 March 2016 (and 31 March 2015) are as follows:

	Group Status at 31 March 2016 and 31 March 2015	Group Carrying value at 31 March 2016	Group Carrying value at 31 March 2015
Performance milestone			
Acceptance by the DMR of an application for a Mining Right at Moabsvelden	**Achieved**	**–**	–
Granting of a Mining Right at Moabsvelden	**Achieved**	**–**	–
Commencement of commercial production at Moabsvelden (includes a success fee of 1% of the vendor payment, payable to each of the two advisers)	**Not yet achieved**	**30 225 541**	31 768 646

The estimated value attributable to these future payments has been determined using a discount rate of 10.1% (2015: 10%). During the prior periods, the group made milestone payments in respect of the application for and granting of a Mining Right at Moabsvelden by the DMR.

	Group At 31 March 2016 R	Group At 31 March 2015 R
27.2 Provisions		
Stock loss provision		
Balance at the beginning of the year	**24 659 987**	–
Stock loss provision[1]	**–**	24 659 987
Reclassification to assets held-for-sale (refer to note 19)	**(24 659 987)**	–
Balance at the end of the year	**–**	24 659 987

[1] Stock theft was discovered at Vaalkrantz during the 2015 financial year. A thorough investigation undertaken by multiple agencies pointed to collusion between employees and third parties. Criminal charges were laid against the employees. A provision for R24.7 million was raised to replace the stock that was sold to customers in anticipation of delivery.

	Group		Company	
	At 31 March 2016 R	At 31 March 2015 R	**At 31 March 2016 R**	At 31 March 2015 R
28 Deferred taxation				
Deferred taxation assets	**–**	–	**–**	–
Deferred taxation liabilities	**(124 275 448)**	(129 179 335)	**(1 426 397)**	(503 666)
	(124 275 448)	(129 179 335)	**(1 426 397)**	(503 666)
Recognised net deferred taxation liability				
At the beginning of the year	**(129 179 335)**	(70 213 491)	**(503 666)**	(2 176 842)
Recognised in profit or loss in the income taxation credit/(expense) line	**4 903 887**	(58 965 844)	**(922 731)**	1 673 176
Balance at the end of the year	**(124 275 448)**	(129 179 335)	**(1 426 397)**	(503 666)
Deferred taxation liability balance consists of:				
Capital allowances	**(123 215 643)**	(130 531 153)	**–**	–
Property, plant and equipment	**(196 987 792)**	(197 110 986)	**–**	–
Rehabilitation provisions	**73 772 149**	66 579 833	**–**	–
Taxation losses	**–**	224 209	**–**	224 209
Other provisions	**736 988**	2 306 786	**464 053**	847 579
Loans to subsidiaries	**(1 890 450)**	(1 575 454)	**(1 890 450)**	(1 575 454)
Other items	**93 657**	396 277	**–**	–
	(124 275 448)	(129 179 335)	**(1 426 397)**	(503 666)
Unrecognised deferred taxation assets consist of:				
Taxation losses	**16 681 677**	15 161 471	**–**	–
Capital allowances/provisions	**16 559 549**	60 623 095	**–**	–
Capital losses(1)	**67 789 866**	–	**67 789 866**	–
	101 031 092	75 784 566	**67 789 866**	–

(1) This unrecognised deferred taxation asset relates to the future capital loss deduction in respect of investments held-for-sale (refer to note 13) which the company can utilise against future capital gains for CGT purposes. The deferred taxation asset has not been recognised as the company does not intend to realise significant capital gains in the foreseeable future.

The taxation losses normally expire within 12 months of a company not trading. The deductible temporary timing differences do not expire under current taxation legislation. Deferred taxation assets have not been recognised in terms of these items because the relevant companies do not have a history of taxable profits and taxable profits will not be available in the immediate future against which the respective companies can utilise these losses.

All of the above amounts have been calculated at the currently enacted income taxation rate of 28% (2015: 28%). Recognised amounts will be recovered from future taxable profits.

Notes to the financial statements continued

for the year ended 31 March 2016

	Group		Company	
	At 31 March 2016 R	At 31 March 2015 R	**At 31 March 2016 R**	At 31 March 2015 R
29 Trade and other payables				
Financial liabilities				
Trade and other payables[1]	**94 641 478**	186 607 692	**1 652 931**	616 678
Sundry payables and accrued expenses	**4 431 878**	14 490 323	**3 000 000**	259 773
Non-financial liabilities				
Value added tax	**613 262**	2 038 199	**–**	–
Payroll accruals[2]	**6 115 516**	12 093 793	**2 163 663**	3 716 622
Income received in advance	**381 313**	1 613 413	**–**	–
	106 183 447	216 843 420	**6 816 594**	4 593 073
The following payment guarantees exist:				
Payment guarantees issued to major suppliers[3]	**25 811 000**	22 357 000	**–**	–

These guarantees have been issued by third parties. R4.5 million by continuing operations and R3.5 million by discontinued operations (2015: R8 million) in bank deposits (included in restricted cash – note 15) are being held by third parties for the guarantees as security.

[1] *Keaton Mining vs Megacube*

Included in trade and other payables in 2015 is an amount of R42.5 million owing to Megacube. The group disputed this amount as previously disclosed. The matter was referred to arbitration which took place during February 2016 and March 2016. On 9 March 2016, and by agreement between the parties, an interim award was made in terms whereof the merits of the dispute were separated from the quantum. Closing arguments regarding the merits were heard in April 2016. Megacube's claim of R42.5 million was dismissed with cost on 28 April 2016. This is an adjusting event after the reporting period and therefore the R42.5 million owing to Megacube was derecognised and reversed to other income (refer to note 6).

Refer to note 41 for additional disclosure regarding the other substantial claims awarded to Keaton Mining regarding this matter.

[2] *Payroll accruals*

These accruals comprise leave pay accrual, bonus accrual and other salary accruals. The leave pay accrual relates to vesting leave pay to which employees may become entitled on leaving the employment of the group. The accrual arises as employees render a service that increases their entitlement to future compensated leave and is calculated based on an employee's total cost of employment. The bonus accrual consists of both a guaranteed portion and a performance-based portion based on the employee's achievement of performance targets. The employee must be in service at date of payment to qualify for the performance bonus.

[3] *Consisting of continuing operations of R16 million and discontinued operations of R9.8 million.*

30 Retirement plan

Provident fund

The majority of the group's salaried employees are members of the KATS provident fund, Keaton Mining provident fund, and LME provident fund. These funds are classified as defined contribution funds.

The provident funds are operated by Liberty Corporate Benefits on behalf of KATS, Keaton Mining and LME, are domiciled in the Republic of South Africa and are governed by the Pension Funds Act (Act No 24 of 1956).

The total cost recognised in profit or loss for continuing operations for the year of R4.3 million (2015: R4.1 million) represents contributions payable to these funds by the group at rates specified in the rules of the provident fund (discontinued operations: R1 million (2015: R1 million)).

	Group		Company	
	Year ended 31 March 2016 R	Year ended 31 March 2015 R	Year ended 31 March 2016 R	Year ended 31 March 2015 R
31 Notes to the statements of cash flows				
31.1 Cash generated from/(utilised in) operations				
Net loss before taxation	**(299 443 613)**	(12 889 063)	**(168 889 792)**	(26 126 298)
Adjustments for:				
Impairment of intangible assets	**208 766 044**	–	**–**	–
Impairment of property, plant and equipment	**36 334 235**	56 532 043	**–**	–
Impairment of interests in subsidiaries	**–**	–	**260 528 225**	101 240 304
Increase in allowance for impairment	**1 528 676**	–	**–**	–
Impairment of other receivables	**1 900 000**	–	**1 900 000**	25 394 980
Finance income	**(5 147 442)**	(6 150 471)	**(482 761)**	(618 817)
Finance cost	**60 947 308**	55 893 040	**124 272**	42 947
Dividend income	**–**	–	**(21 439 825)**	(39 082 733)
Non-cash items included in other income	**(39 496 420)**	–	**–**	–
Depreciation and amortisation	**448 472 483**	463 780 526	**–**	–
Share option expenses	**7 118 754**	7 757 962	**4 299 445**	5 436 209
Loss on disposal of property, plant and equipment	**166 124**	3 532 262	**–**	–
Unrealised foreign exchange losses	**4 998 752**	7 933 260	**–**	–
Change in estimate – environmental rehabilitation	**(4 582 615)**	(4 669 408)	**–**	–
Fair value gains on financial instruments through profit or loss	**(1 653 932)**	(6 520 872)	**–**	–
Net realisable value adjustment on inventory	**986 496**	2 746 060	**–**	–
Provision for stock loss	**–**	24 659 987	**–**	–
Non-cash items included in revenue from subsidiaries	**–**	–	**(43 550 220)**	(99 944 888)
Non-cash items included in cost of sales	**–**	–	**2 003 579**	–
Loss on initial recognition of borrowings	**61 525 698**	–	**–**	–
Changes in working capital	**6 165 078**	(34 107 666)	**(4 241 707)**	17 237 055
Inventory	**11 839 576**	(21 775 335)	**–**	–
Trade and other receivables	**34 001 435**	(28 119 614)	**(3 465 228)**	16 900 451
Trade and other payables	**(39 675 933)**	15 787 283	**(776 479)**	336 604
	488 585 626	558 497 660	**30 251 216**	(16 421 241)
31.2 Taxation received/(paid)				
Balance at the beginning of the year	**1 901 772**	(1 280 692)	**4 616**	(193 331)
Current income taxation	**(2 736 258)**	–	**(2 736 258)**	–
Balance at the end of the year	**1 814 750**	(1 901 772)	**2 731 642**	(4 616)
Received/(paid) during the year	**980 264**	(3 182 464)	**–**	(197 947)
31.3 Interest in subsidiary companies				
Decrease/(increase) in the carrying amount	**–**	–	**10 504 254**	(41 396 661)
Shares issued to acquire additional interest in subsidiaries	**–**	–	**159 697 224**	–
Cash consideration to purchase additional interest in subsidiary payable at year-end	**–**	–	**3 000 000**	–
Interest and preference dividends capitalised	**–**	–	**36 492 584**	94 890 831
Financial guarantee provided	**–**	–	**–**	24 427 940
Impairment loss	**–**	–	**(260 528 225)**	(101 240 304)
	–	–	**(50 834 163)**	(23 318 194)

Notes to the financial statements continued

for the year ended 31 March 2016

32 Contingencies, commitments and legal disputes

The group has the following contingencies, commitments and legal disputes:

(i) During July 2015, the company and its subsidiary, Keaton Mining, concluded an agreement with Moneybox regarding the grant of call options by the company and Keaton Mining to Moneybox to acquire all of the ordinary shares, preference shares and associated preference dividends rights held by the company in Labohlano, and the Prospecting Rights and related geological and technical reports owned by Keaton Mining relating to the Sterkfontein Project. The total purchase price for the sale will be R152 million plus accrued preference dividends to the effective date. The options shall only become effective on the fulfilment of the last condition precedent (including, *inter alia*, approval being obtained from the Board of Directors of the various parties, shareholders' approval, compliance with the JSE Listings Requirements and the relevant provisions of the Companies Act, 2008, and approval being obtained from Investec Bank Limited in accordance with Keaton Mining's facility agreement). The option is exercisable by Moneybox until 31 January 2017.

(ii) *Keaton Mining vs Megacube*

The legal dispute between Keaton Mining and Megacube was settled subsequent to year-end (refer to note 41). The following award was made in favour of Keaton Mining on 28 April 2016 regarding the merits of the dispute. The more substantial claims awarded in favour of Keaton Mining are listed below:

- Megacube's claim of R42.5 million is dismissed with cost.
- Megacube is liable to compensate Keaton Mining for the damages which flow from its failure to mine and deliver 300 000 tonnes of run-of-mine (ROM) coal per month.
- Megacube is liable to make payment to Keaton Mining in such an amount equalling the present value of 657 583.8 tonnes of ROM coal not mined.
- Megacube is directed to pay Keaton Mining's costs, such costs to include the employment of two counsel and the qualifying fees of expert witnesses.

The quantum of the claims awarded will be dealt with in the coming months. A reliable estimate of the amount to be received can only be made once the outcome of the quantification portion of the arbitration has been finalised/settled.

On 10 June 2016, Megacube filed an application in the High Court of Gauteng to have the arbitration award reviewed and set aside. This application will be opposed. The company's management and its legal advisers strongly believe that this application is without merit.

(iii) *Neosho and Focus Coal Investments Proprietary Limited (FCI) vs Thebe Mining Resources Proprietary Limited and Main Street 1055 Proprietary Limited (Thebe)*

Thebe has commenced arbitration (litigation) against Neosho and FCI in which it is claiming that the transaction previously entered into with Thebe for the acquisition of 30% of the shareholding in Neosho, becomes unconditional and therefore effective resulting in Thebe becoming a 30% shareholder of Neosho, failing which it is claiming alleged damages of R59 million and associated costs in respect of alleged breaches by FCI and Neosho in the fulfilment of the suspensive conditions to such transaction (the subscription agreement entered into between the companies). Neosho and FCI are defending the arbitration (litigation) proceedings and believe that there is no reasonable basis for the claim and believe that a provision for this potential cost is not required at 31 March 2016.

	Group	
	At 31 March 2016 R	At 31 March 2015 R
Capital commitments		
Authorised but not contracted	**22 628 750**	44 548 617
Authorised and contracted	**5 696 211**	16 830 134

All contracted amounts will be funded through existing funding mechanisms within the group and cash generated from operations.

	Group		Company	
	Year ended 31 March 2016 R	Year ended 31 March 2015 (Restated)* R	**Year ended 31 March 2016 R**	Year ended 31 March 2015 R
33 Operating lease payments				
Lease payments[(1)]	**1 701 466**	1 492 977	**–**	–
Recognised in profit or loss	**1 701 466**	1 492 977	**–**	–
Non-cancellable operating lease rentals are payable as follows:[(1)]				
Less than one year	**1 634 182**	1 553 230	**–**	–
One to five years	**306 533**	1 126 433	**–**	–
Total	**1 940 715**	2 679 663	**–**	–

[(1)] *Mainly consists of leases relating to the rent of the head office building and the weigh-bridges at Keaton Mining's Vanggatfontein Mine.*

* *The 31 March 2015 group results have been restated for the effects of the application of IFRS 5* Non-current Assets Held-for-sale and Discontinued Operations *following management's decision to dispose of certain operations within the group (refer to note 10). The statement of financial position and the statement of changes in equity for this period are not required to be restated.*

34 Financial instruments

Overview

The group's financial instruments expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and other price risk), credit risk and liquidity risk. The group may use derivative financial instruments to hedge certain risk exposures.

This note presents information about the group's level of exposure to each of the above risks, the group's objectives, policies and processes for measuring and managing risk, and the group's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board has overall responsibility for the establishment and oversight of the group's risk management framework. The Risk Committee is responsible for developing and monitoring the group's risk management policies. This Committee reports at least quarterly to the Board on its activities.

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities. The group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the group's risk management framework in relation to risks faced by the group. Internal audit assists the Audit Committee in its oversight role. It undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Notes to the financial statements continued

for the year ended 31 March 2016

34 Financial instruments *(continued)*

The group's financial instruments are set out below:

	Loans and receivables R	Held-to-maturity investments R	At fair value through profit or loss financial assets (designated)/liabilities R	Financial liabilities at amortised cost R	Held-for-sale# R
Group					
At 31 March 2016					
Investments and loans	**5 221 048**	**–**	**–**	**–**	**–**
Restricted investments	**–**	**–**	**35 225 869**	**–**	**29 650 899**
Restricted cash	**–**	**11 590 707**	**–**	**–**	**–**
Trade and other receivables	**104 274 990**	**–**	**–**	**–**	**6 764 683**
Cash and cash equivalents	**43 379 396**	**–**	**–**	**–**	**5 505 916**
Borrowings	**–**	**–**	**–**	**391 287 700**	**72 234**
Vendor liability	**–**	**–**	**–**	**30 225 541**	**–**
Trade and other payables	**–**	**–**	**–**	**99 073 356**	**24 236 146**
At 31 March 2015					
Investments and loans	5 216 499	–	–	–	–
Restricted investments	–	–	68 305 506	–	–
Restricted cash	–	10 780 613	–	–	–
Trade and other receivables	149 372 384	–	433 134	–	–
Cash and cash equivalents	72 546 393	–	–	–	–
Borrowings	–	–	–	361 116 221	–
Vendor liability	–	–	–	31 768 646	–
Short-term financial liabilities	–	–	67 816	–	–
Trade and other payables	–	–	–	201 098 015	–
Company					
At 31 March 2016					
Loans to subsidiaries	**54 361 407**	**–**	**–**	**–**	**–**
Preference shares in subsidiaries	**471 812 067**	**–**	**–**	**–**	**–**
Restricted cash	**–**	**1 418 581**	**–**	**–**	**–**
Trade and other receivables	**2 155 369**	**–**	**–**	**–**	**–**
Cash and cash equivalents	**800 698**	**–**	**–**	**–**	**–**
Trade and other payables	**–**	**–**	**–**	**4 652 931**	**–**
Financial liabilities	**–**	**–**	**–**	**14 319 826**	**–**
At 31 March 2015					
Loans to subsidiaries	201 680 704	–	–	–	–
Preference shares in subsidiaries	502 194 256	–	–	–	–
Restricted cash	–	1 418 581	–	–	–
Trade and other receivables	617 471	–	–	–	–
Cash and cash equivalents	2 160 501	–	–	–	–
Trade and other payables	–	–	–	876 451	–
Financial liabilities	–	–	–	19 373 883	–

 # Refer to notes 10 and 19 for additional information.

34 Financial instruments *(continued)*

Credit risk

Credit risk is the risk that a counterparty may default or not meet its obligations timeously. Financial instruments, which subject the group to concentrations of credit risk, consist predominantly of restricted cash, trade and other receivables (excluding non-financial instruments), and cash and cash equivalents.

Exposure to credit risk on trade and other receivables is monitored on a regular basis to ensure that customers remain within the negotiated terms. Customers are assessed on an individual basis to determine terms and conditions of sale transactions to limit the group's exposure to impairments. The group uses a credit agency, Experian, to recommend the appropriate credit terms of each new customer. Refer to notes 18 and 19.4 for an analysis of the movement in allowance for impairment on trade and other receivables.

The group limits its counterparty exposures from its restricted cash and cash and cash equivalents by only dealing with well-established financial institutions of high-quality credit standing. At the reporting date, all of the group's cash resources were deposited with reputable financial institutions of quality credit standing. The group has developed cash investment guidelines to ensure no significant concentration of credit risk.

	Group		Company	
	At 31 March 2016 R	At 31 March 2015 R	**At 31 March 2016 R**	At 31 March 2015 R
Cash and cash equivalents and restricted cash				
Financial institutions' credit rating by exposure:				
AA-	**779 274**	165 067	**–**	–
BBB	**49 573 119**	73 376 955	**2 219 279**	3 578 112
BBB-	**450 207**	6 427 574	**–**	970
Attorney's trust funds	**4 167 503**	3 357 410	**–**	–
Held-for-sale: BBB	**5 505 916**	–	**–**	–
Cash and cash equivalents and restricted cash	**60 476 019**	83 327 006	**2 219 279**	3 579 082

The maximum exposure to credit risk is represented by the carrying amount of all financial assets determined to be exposed to credit risk at the reporting date. The total exposure at 31 March 2016 for the group was R241.6 million (31 March 2015: R306.7 million). The total exposure at 31 March 2016 for the company was R530.5 million (31 March 2015: R708.1 million). These are illustrated in the table under the overview section.

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due, by delivering cash or another financial asset. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. In the ordinary course of business, the group receives cash from its operations and is required to fund working capital and capital expenditure requirements. The group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient marketable securities or cash resources either from operations or committed credit facilities to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation. Refer to the maturity analysis under the market risk section. The group has also provided indemnities to third parties in terms of certain unfunded guarantees (refer to note 29). Surplus cash is managed by investing in such a manner to achieve market-related returns and to provide sufficient liquidity at the minimum risk. Liabilities classified as held-for-sale are all classified as current because the sale of the disposal group is expected to be completed within 12 months, as disclosed in note 10, therefore these liabilities were not included in the maturity analysis table on page 172.

Notes to the financial statements continued
for the year ended 31 March 2016

	Total R	Current R	Between one and two years R	Between two and five years R	Over five years R
34 Financial instruments *(continued)*					
Liquidity risk *(continued)*					
The following are the contractual maturities of financial liabilities (including principal and interest payments):					
Group					
31 March 2016					
Borrowings	**391 287 700**	**201 682 303**	**90 027 998**	**99 577 399**	**–**
Interest on borrowings	**48 698 326**	**29 141 438**	**13 878 000**	**5 678 888**	**–**
Vendor liability	**30 225 541**	**–**	**30 225 541**	**–**	**–**
Trade and other payables (excluding non-financial liabilities)	**99 073 356**	**99 073 356**	**–**	**–**	**–**
	569 284 923	**329 897 097**	**134 131 539**	**105 256 287**	**–**
31 March 2015					
Borrowings	361 116 221	109 375 308	67 347 334	184 393 579	–
Interest on borrowings	61 008 639	28 303 653	18 919 235	13 785 751	–
Vendor liability	31 768 646	–	31 768 646	–	–
Trade and other payables (excluding non-financial liabilities)	201 098 015	158 645 129	42 452 886	–	–
	654 991 521	296 324 090	160 488 101	198 179 330	–
Company					
31 March 2016					
Trade and other payables (excluding non-financial liabilities)	**4 652 931**	**4 652 931**	**–**	**–**	**–**
Financial liabilities (financial guarantee contracts)	**214 334 866**	**214 334 866**	**–**	**–**	**–**
	218 987 797	**218 987 797**	**–**	**–**	**–**
31 March 2015					
Trade and other payables (excluding non-financial liabilities)	876 451	876 451	–	–	–
Financial liabilities (financial guarantee contracts)	261 725 671	261 725 671	–	–	–
	262 602 122	262 602 122	–	–	–

Capital risk management

The group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business in a way that optimises the cost of capital and matches the current strategic business plan. There were no changes to this policy during the year. The Board monitors both the demographic spread of shareholders, as well as the return on capital. Capital is defined as total shareholders' equity, excluding non-controlling interests. The group's target return on capital, once all operations are fully ramped up, is between 15% and 20%.

The group's externally invested funds produced income for the year of R4.0 million from continuing operations and R1.1 million from discontinued operations (2015: R6.2 million (R5.3 million continuing and R0.9 million discontinued operations)). This equates to an average return of 3.6% (2015: 4.2%) before tax.

The company's funds invested in its subsidiaries' mining operations and exploration projects earn a return of between prime plus 2% and 5% before tax, cumulative and compounded quarterly. The company only recognises this return once a proved and probable reserve has been declared in a subsidiary. The income for the year from the company's financial assets was R100.3 million (2015: R96.4 million). This equates to an average return of 16.2% (2015: 14.2%) before tax.

The group's externally imposed capital requirements are that of the Investec Bank Limited term facility. The group has complied with all the requirements present at 31 March 2016 and 2015, as detailed in note 24.

34 Financial instruments *(continued)*

Market risk

(i) Foreign exchange risk

The group is exposed to foreign exchange risk primarily with respect to the USD. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The group is mainly exposed to foreign exchange risk arising from borrowings denominated in a currency other than the functional currency. The group generally does not enter into forward sales, derivatives or other hedging arrangements to manage this risk.

	Group		Company	
	At 31 March 2016 USD	At 31 March 2015 USD	**At 31 March 2016 USD**	At 31 March 2015 USD
Exposure to foreign exchange risk				
Unsecured loans	**9 408 546**	5 517 161	**–**	–
Net exposure	**9 408 546**	5 517 161	**–**	–

	Average for the year 2016	**Year-end spot rate 2016**	Average for the year 2015	Year-end spot rate 2015
ZAR to USD	**13.77**	**14.82**	11.06	12.08

Sensitivity analysis

The group has reviewed its foreign currency exposure on financial assets and financial liabilities and has identified the following sensitivities for a 10% change in the exchange rate that will impact profit or loss and equity. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as in 2015.

	Group		Company	
	At 31 March 2016 R	At 31 March 2015 R	**At 31 March 2016 R**	At 31 March 2015 R
ZAR against the USD				
Increase by 10%	**(13 944 218)**	(6 666 551)	**–**	–
Decrease by 10%	**13 944 218**	6 666 551	**–**	–

Notes to the financial statements continued

for the year ended 31 March 2016

34 Financial instruments *(continued)*

Market risk *(continued)*

(ii) Cash flow and fair value interest rate risk

Working capital and capital expenditure requirements are funded through cash generated by operations and the loan facilities provided to group entities. The group's interest rate risk arises mainly from long-term borrowings, cash and bank balances and restricted cash. The group has mainly variable interest rate borrowings. Variable rate borrowings expose the group to cash flow interest rate risk that will impact profit or loss. The group has not entered into any agreements, such as hedging, to manage this risk. The group's Risk Committee meets at least quarterly to specifically address and manage these risks.

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit before tax by the amounts shown in the table below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as in 2015.

	Group		Company	
	At 31 March 2016 R	At 31 March 2015 R	**At 31 March 2016 R**	At 31 March 2015 R
Increase by 100 basis points	**(2 377 454)**	(2 376 667)	**6 179 234**	6 769 246
Decrease by 100 basis points	**2 377 454**	2 376 667	**(6 179 234)**	(6 769 246)

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates the periods in which they mature. Assets and liabilities classified as held-for-sale are excluded from the table as the sale of the disposal group is expected to be completed within 12 months, as disclosed in note 10.

	Fixed or variable rate	Total R	Maturing – less than six months[(1)] R	Maturing – between six months and one year[(1)] R	Maturing – one to five years[(1)] R	Maturing – over five years[(1)] R
Group						
At 31 March 2016						
Financial assets						
Restricted investments	Variable	**35 225 869**	**–**	**–**	**–**	**35 225 869**
Restricted cash[(2)]	Variable	**11 590 707**	**4 167 503**	**–**	**7 423 204**	**–**
Short-term deposits	Variable	**959**	**959**	**–**	**–**	**–**
Cash in bank and on hand	Variable	**43 378 437**	**43 378 437**	**–**	**–**	**–**
		90 195 972	**47 546 899**	**–**	**7 423 204**	**35 225 869**
Financial liabilities						
Borrowings	Fixed/variable	**391 287 700**	**87 985 733**	**113 696 570**	**189 605 397**	**–**
At 31 March 2015						
Financial assets						
Restricted investments	Variable	68 305 506	–	–	–	68 305 506
Restricted cash[(2)]	Variable	10 780 613	–	–	10 780 613	–
Short-term deposits	Variable	959	959	–	–	–
Cash in bank and on hand	Variable	72 545 434	72 545 434	–	–	–
		151 632 512	72 546 393	–	10 780 613	68 305 506
Financial liabilities						
Borrowings	Fixed/variable	361 116 221	43 501 832	65 873 476	251 740 913	–

[(1)] It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

[(2)] These deposits are invested in rolling short-term deposits, but are pledged against mining or Prospecting Right guarantees, mining permit guarantees, payment guarantees and a property transfer guarantee which all have different maturity dates.

34 Financial instruments *(continued)*

Market risk *(continued)*

Company

	Fixed or variable rate	Total R	Maturing – less than six months[1] R	Maturing – between six months and one year[1] R	Maturing – one to five years[1] R	Maturing – over five years[1] R
At 31 March 2016						
Financial assets						
Restricted cash[3]	Variable	**1 418 581**	**–**	**–**	**1 418 581**	**–**
Loans to subsidiaries	Variable	**54 361 407**	**–**	**–**	**54 361 407**	**–**
Preference shares in subsidiaries	Variable	**471 812 067**	**36 000 000**	**36 000 000**	**399 812 067**	**–**
Short-term deposits	Variable	**959**	**959**	**–**	**–**	**–**
Cash in bank and on hand	Variable	**799 739**	**799 739**	**–**	**–**	**–**
		528 392 753	**36 800 698**	**36 000 000**	**455 592 055**	**–**
At 31 March 2015						
Financial assets						
Restricted cash[3]	Variable	1 418 581	–	–	1 418 581	–
Loans to subsidiaries	Variable	201 680 704	–	–	201 680 704	–
Preference shares in subsidiaries	Variable	502 194 256	30 000 000	30 000 000	442 194 256	–
Short-term deposits	Variable	959	959	–	–	–
Cash in bank and on hand	Variable	2 159 542	2 159 542	–	–	–
		707 454 042	32 160 501	30 000 000	645 293 541	–

[1] *It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.*
[3] *These deposits are invested in rolling short-term deposits, but are pledged against guarantees that are valid over the life of a Prospecting Right/mining permit.*

(iii) Other price risk

The group is exposed to the risk of fluctuations in the fair value of its *at fair value through profit or loss financial assets* as a result of changes in market prices (other than changes in interest rates and foreign currencies). The company generally does not use any derivative instruments to manage this risk.

Sensitivity analysis

A 1% increase in the underlying JSE traded equity investments within unit trust investments funds, with all other variables held constant, would have increased profit or loss by R0.6 million (2015: R0.7 million); an equal change in the opposite direction would have decreased profit or loss by R0.6 million (2015: R0.7 million). The analysis is performed on the same basis as in 2015. The financial assets to which these sensitivities have been performed are disclosed in notes 16 and 19.3.

Commodity price sensitivity

Commodity price risk exists at the group's Vaalkrantz operation. The group did not consider there to be any other significant concentration of commodity price risk, as the majority of sales are bound by negotiated rates for commodities that escalate annually based on a contractually agreed basket of indicators.

Fair value determination

Restricted investments and financial liabilities are carried at fair value. The carrying values (less any impairment allowance) of restricted cash, cash and cash equivalents, investments and loans, trade and other receivables, borrowings (excluding IDC preference shares), vendor liability and trade and other payables are assumed to approximate their fair values. Refer to the table on pages 176 and 177 for determination of financial assets and liabilities' fair values.

Notes to the financial statements continued
for the year ended 31 March 2016

34 Financial instruments *(continued)*

Market risk *(continued)*

(iii) Other price risk (continued)

The table below presents the group's fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly (that is, as prices) or indirectly (that is derived from prices); and

Level 3: Inputs for the asset that are not based on observable market data (that is unobservable inputs).

			Fair value		
	Accounting classification	Carrying amount R	Level 1 R	Level 2 R	Level 3 R
At 31 March 2016					
Group					
Financial assets					
Restricted investments	At fair value through profit or loss financial assets (designated)	**35 225 869**	**35 225 869**	**–**	**–**
Restricted investments (held-for-sale)	At fair value through profit or loss financial assets (designated)	**29 650 899**	**29 650 899**	**–**	**–**
Financial liabilities					
Borrowings (IDC preference shares)	Financial liabilities at amortised cost	**37 151 259**	**–**	**39 132 476**	**–**
Company					
Financial assets					
Loans to subsidiaries	Loans and receivables	**54 361 407**	**–**	**–**	**52 453 618**
Preference shares in subsidiaries	Loans and receivables	**471 812 067**	**–**	**–**	**563 794 730**
Financial liabilities					
Financial liabilities (financial guarantee contracts)	Financial liabilities at amortised cost	**14 319 826**	**–**	**12 926 524**	**–**
At 31 March 2015					
Group					
Financial assets					
Restricted investments	At fair value through profit or loss financial assets (designated)	68 305 506	68 305 506	–	–
Trade and other receivables (forward exchange contracts)	At fair value through profit or loss financial assets	433 134	–	433 134	–
Financial liabilities					
Short-term financial liabilities	At fair value through profit or loss financial liabilities	67 816	–	67 816	–
Borrowings (IDC preference shares)	Financial liabilities at amortised cost	32 173 113	–	32 245 303	–
Company					
Financial assets					
Loans to subsidiaries	Loans and receivables	201 680 704	–	–	201 131 611
Preference shares in subsidiaries	Loans and receivables	502 194 256	–	–	591 241 618
Financial liabilities					
Financial liabilities (financial guarantee contracts)	Financial liabilities at amortised cost	19 373 883	–	15 903 440	–

34 Financial instruments *(continued)*

Basis for determining fair values

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Interrelationship between unobservable inputs and fair value measurement
Financial assets Loans to subsidiaries Preferential shares in subsidiaries	Discounted cash flows: considers the present value of the expected payments discounted using risk adjusted discount rates.	• Risk adjusted rate of 9.25% (2015: 9.25%). • Forecast repayment terms.	The estimated fair value would (increase)/decrease pending changes to the unobservable inputs.
Financial assets Forward exchange contracts (FECs)	Valued by an independent financial institution using forward looking market rates until the realisation date of the relevant instruments.	• Forward looking market rates.	The estimated fair value would (increase)/decrease pending changes to the unobservable inputs.
Financial liabilities Financial liabilities (financial guarantee contracts)	A hazard rate model was used to determine the default probabilities over the life of the loan. A discounted cash flow model was then used to determine the fair value of the expected cash flows.	• Credit spread of JIBAR plus 4%. • Assumed recovery rate of 40%. • Keaton Mining loan amortisation table. • Interpolated ZAR interbank discount rates for the duration of the cash flows.	The estimated fair value would (increase)/decrease pending changes to the unobservable inputs.
Financial liabilities Borrowings (IDC preference shares)	Discounted cash flows: considers the present value of the expected payments discounted using risk adjusted discount rates.	• Risk adjusted rate of 9.25% (2015: 9.25%).	The estimated fair value would (increase)/decrease pending changes to the unobservable inputs.
Financial liabilities Short-term financial liabilities (IDC option)	Refer to note 25 for the valuation technique used.	The value of the option is dependent on a factor of between one and five, which is linked to the date the preference shares are likely to be redeemed.	Refer to note 25 for additional interrelationships on the unobservable inputs. The option expired in the current financial year.

Notes to the financial statements continued

for the year ended 31 March 2016

35 Segment report for the year ended 31 March 2016

	Revenue		Operating profit/(loss) before depreciation/amortisation	
	Year ended 31 March 2016 R	Year ended 31 March 2015 R	**Year ended 31 March 2016 R**	Year ended 31 March 2015 R
Vanggatfontein Colliery[(1) (4)]	**1 032 079 534**	1 181 054 551	**620 227 785**	626 861 710
Vaalkrantz Colliery[(1) (5) (7) (9)]	**176 821 851**	266 646 732	**(138 869 519)**	(88 810 932)
Sterkfontein Project	**–**	–	**–**	–
Keaton Energy Holdings Limited[(2) (10)]	**130 081 591**	144 701 219	**(169 248 281)**	(26 702 168)
Keaton Administrative and Technical Services Proprietary Limited[(2)]	**35 621 484**	38 137 163	**(9 377 923)**	5 261 187
Leeuw Braakfontein Project[(11)]	**–**	–	**(174 517 839)**	(8 643 883)
Koudelager Project[(7) (9)]	**–**	–	**–**	–
Moabsvelden Project[(2)]	**–**	87 500	**(59 428 359)**	635 262
Other segments[(2) (3) (8) (9)]	**–**	225 000	**(18 540)**	(3 454 020)
Total segments	**1 374 604 460**	1 630 852 165	**68 767 324**	505 147 156
Reconciliation to statements of profit or loss and other comprehensive income and financial position				
Intersegment, deferred taxation assets and liabilities and other consolidation adjustments	**(165 703 075)**	(183 150 882)	**134 723 377**	(27 661 283)
	1 208 901 385	1 447 701 283	**203 490 701**	477 485 873
Net finance cost[(6)]				
Elimination of discontinued operations				
Net (loss)/profit before taxation				
Total assets and liabilities				

[(1)] *Revenue represents sales to external customers only.*

[(2)] *Revenue represents intersegment sales only.*

[(3)] *Includes the subsidiaries Amalahle Exploration Proprietary Limited, Labohlano Trading 46 Proprietary Limited, Ausco Finance Proprietary Limited, Ausco Services Proprietary Limited, Focus Coal Investments Proprietary Limited, Xceed Resourced Limited and the Balgray Prospecting Rights.*

[(4)] *Coal sales to a major customer as a percentage of revenue exceeded 92% (31 March 2015: 90%).*

[(5)] *Coal sales to three major customers as a percentage of revenue amounted to 73%, 14% and 10% (two major customers 31 March 2015: 39% and 37%).*

[(6)] *Net finance cost is not reported as forming part of each segment profit or loss as these are not measured or reported to the chief operating decision maker (CODM) in connection with the segment but rather on a collective company/group basis.*

[(7)] *Classified as a discontinued operation. Refer to note 10.*

[(8)] *Amalahle Exploration Proprietary Limited and the Balgray Prospecting Rights included in other segments are classified as discontinued operation. Refer to note 10.*

[(9)] *Includes impairment charge of R85.9 million (2015: R56.5 million relating to Vaalkrantz) as disclosed in note 10, allocated as follows: Vaalkrantz R53.4 million, Koudelager R27 million and other segment R5.5 million (Amalahle R0.5 million and Balgray R5 million).*

[(10)] *Includes impairment charge of R260.5 million (2015: R126.6 million) as disclosed in note 13.*

[(11)] *Includes impairment charge of R159.2 million (2015: Rnil) as disclosed in note 14.*

	Depreciation/amortisation		Operating profit/(loss) after depreciation/amortisation		Segment assets		Segment liabilities	
	Year ended 31 March 2016 R	Year ended 31 March 2015 R	Year ended 31 March 2016 R	Year ended 31 March 2015 R	At 31 March 2016 R	At 31 March 2015 R	At 31 March 2016 R	At 31 March 2015 R
	(442 377 223)	(423 026 499)	177 850 562	203 835 211	881 546 501	937 240 995	1 051 402 348	1 150 738 857
	(3 992 228)	(18 327 526)	(142 861 747)	(107 138 458)	137 062 919	137 443 556	469 253 210	357 638 745
	–	–	–	–	66 042 942	66 014 112	74 971 455	72 702 768
	–	–	(169 248 281)	(26 702 168)	954 510 501	961 940 903	24 009 463	23 966 952
	(3 267 157)	(899 670)	(12 645 080)	4 361 517	11 623 121	17 254 237	56 443 669	47 865 641
	–	–	(174 517 839)	(8 643 883)	153 526 867	305 464 569	124 128 641	98 613 931
	–	–	–	–	3 729 601	26 140 496	–	–
	–	–	(59 428 359)	635 262	342 107 050	339 984 582	134 367 095	72 453 903
	(397)	(17 524)	(18 937)	(3 471 544)	334 043 081	333 232 451	129 484 659	113 421 178
	(449 637 005)	(442 271 219)	(380 869 681)	62 875 937	2 884 192 583	3 124 715 901	2 064 060 540	1 937 401 975
	862 513	–	135 585 890	(27 661 283)	(1 389 381 196)	(1 247 346 784)	(1 062 092 050)	(898 290 484)
	(448 774 492)	(442 271 219)	(245 283 791)	35 214 654	1 494 811 387	1 877 369 117	1 001 968 490	1 039 111 491
			(54 159 822)	(48 103 717)				
			128 776 357	92 093 704				
			(170 667 256)	79 204 641				
					1 494 811 387	1 877 369 117	1 001 968 490	1 039 111 491

Notes to the financial statements continued

for the year ended 31 March 2016

35 Segment report for the year ended 31 March 2016 *(continued)*

Vanggatfontein Colliery

The Vanggatfontein Colliery is an operating colliery in South Africa's Mpumalanga province, some 80km east of Johannesburg. The colliery first produced 5-seam coal in December 2010 with the production of 2 and 4-seam thermal coal following in June 2011. Vanggatfontein delivered 2 237 595 tonnes of washed 2 and 4-seam thermal coal to Eskom during the 2016 financial year (2015: 2 278 761 tonnes). 5-seam metallurgical coal sales decreased to 98 252 tonnes in 2016 (2015: 126 107 tonnes) in line with the geological model.

Vaalkrantz Colliery

The Vaalkrantz Anthracite Colliery is near Vryheid in South Africa's KwaZulu-Natal province and has been in production since 2003. The colliery sold 301 955 tonnes of anthracite to domestic and international metallurgical markets during the 2016 financial year (2015: 395 450 tonnes). The colliery has been classified as assets held-for-sale. Refer to notes 10 and 19 for additional disclosure.

Sterkfontein Project

Keaton Energy's Sterkfontein Project is located in the magisterial district of Bethal on the Highveld Coalfield in the Mpumalanga province. The project covers a total area of 8 020 hectares, for which a 90.9 million tonne coal resource has been declared. The 4-lower seam averages 1.93m in thickness over the total project area and will on average yield 43% export quality thermal coal and 22% domestic power station steam coal.

Leeuw Braakfontein Project

The Leeuw Braakfontein Project is located 10km south-east of Newcastle, KwaZulu-Natal. The project has a Mining Right and the group owns the Surface Rights. A resource of 60.1 million tonnes has been declared.

Moabsvelden Project

The Moabsvelden Project is located in South Africa's Mpumalanga province, in close proximity of the Vanggatfontein Colliery. First ROM production is dependent on environmental approvals. A resource of 54.7 million tonnes and a reserve of 39.8 million tonnes have been declared.

Koudelager Project

The Koudelager Anthracite Project will provide future ROM anthracite production to the Vaalkrantz Plant and is situated some 40km from the Vaalkrantz Colliery. A resource of 12.3 million tonnes has been declared. The project has been classified as assets held-for-sale. Refer to notes 10 and 19 for additional disclosure.

Keaton Energy Holdings Limited

Keaton Energy Holdings Limited (KEHL) holds the group's interest in the operating subsidiaries and provides funding to those subsidiaries in terms of preference share subscription agreements and loan agreements entered into between each subsidiary and KEHL.

Keaton Administrative and Technical Services Proprietary Limited

Keaton Administrative and Technical Services Proprietary Limited, a 100% held subsidiary of KEHL, owns the group's head office assets and provides management, technical and administrative services to the group's operating and exploration subsidiaries.

Other segments

Other segments include the subsidiaries Amalahle Exploration Proprietary Limited, Labohlano Trading 46 Proprietary Limited, Ausco Finance Proprietary Limited, Ausco Services Proprietary Limited, Xceed Resources Limited, Focus Coal Investments Proprietary Limited, Klip Colliery and the Balgray Prospecting Rights. Amalahle Exploration Proprietary Limited and the Balgray Prospecting Rights are classified as assets held-for-sale. Refer to notes 10 and 19 for additional disclosures.

Assets and liabilities not allocated to segments

The other assets and liabilities represent tax and deferred taxation assets and liabilities and, due to their nature, are not allocated to the respective projects discussed above.

36 Remuneration of directors

The remuneration of the Executive Directors of the company is set out in the table below:

Executive Director	Basic salary R	Travel allowance R	Medical aid R	Group benefits R	Leave pay R	Performance bonuses R	Total R
2016							
Paid by the company:							
AB Glad	**3 454 200**	**240 000**	**100 320**	**219 297**	**–**	**2 012 939**	**6 026 756**
J Rossouw	**2 712 836**	**–**	**109 359**	**454 728**	**–**	**1 783 666**	**5 060 589**
	6 167 036	**240 000**	**209 679**	**674 025**	**–**	**3 796 605**	**11 087 345**
2015							
Paid by the company:							
AB Glad	3 201 668	–	91 467	182 019	962 848	3 484 615	7 922 617
J Rossouw	2 303 077	–	88 449	426 166	283 572	2 730 769	5 832 033
	5 504 745	–	179 916	608 185	1 246 420	6 215 384	13 754 650

The movement in the number of share options of the Executive Directors of the company is set out in the table below:

	Number of shares					
	Opening balance	Share options awarded during the year	Share options exercised/ lapsed during the year	Closing balance	Vesting dates	Offer price R
Executive Director						
AB Glad	569 727	–	–	569 727	30 Jun 13	4.67
AB Glad	1 134 989	–	–	1 134 989	31 Mar 14	2.52
AB Glad	1 017 855	–	–	1 017 855	30 Nov 14	2.81
AB Glad	1 284 431	–	–	1 284 431	31 Mar 15	3.34
AB Glad	3 150 000	–	–	3 150 000	31 Mar 16	1.44
AB Glad	750 389	–	–	750 389	25 Jun 17	N/A#
AB Glad	–	1 054 251	–	1 054 251	22 Jun 18	N/A#
J Rossouw	355 872	–	–	355 872	30 Nov 14	2.81
J Rossouw	1 616 766	–	–	1 616 766	31 Mar 15	3.34
J Rossouw	2 087 250	–	–	2 087 250	31 Mar 16	1.44
J Rossouw	568 740	–	–	568 740	25 Jun 17	N/A#
J Rossouw	–	830 225	–	830 225	22 Jun 18	N/A#
	12 536 019	1 884 476	–	14 420 495		

Refer to note 21 for a detailed discussion on the recognition and measurement of share options under the 2013 share plan.

Notes to the financial statements continued

for the year ended 31 March 2016

36 Remuneration of directors *(continued)*

	Number of shares					
	Opening balance	Share options awarded during the year	Share options exercised/ lapsed during the year	Closing balance	Vesting dates	Offer price R
Non-Executive Director						
JD Salter*	2 000 000	–	–	2 000 000	31 Mar 16	1.44
	2 000 000	–	–	2 000 000		

** Allocated to JD Salter during his appointment as Executive Chairman during the 2013 financial year.*

The remuneration of the Non-Executive Directors of the company is set out in the table below:

	Board member fees R	Committee fees R	Total R
Non-Executive Director			
2016			
JD Salter	**364 319**	**267 553**	**631 872**
GH Kemp	**314 771**	**247 879**	**562 650**
LX Mtumtum	**314 771**	**314 768**	**629 539**
P Pouroulis	**314 771**	**59 019**	**373 790**
OP Sadler	**314 771**	**169 188**	**483 959**
APE Sedibe	**314 771**	**180 992**	**495 763**
JHM Schurink**	**78 693**	**23 608**	**102 301**
MT Witteveen	**314 771**	**59 019**	**373 790**
HG Mai ****	**236 078**	**35 411**	**271 489**
	2 567 716	**1 357 437**	**3 925 153**
2015			
JD Salter	327 887	241 250	569 137
D Jonker##	72 864	13 662	86 526
GH Kemp	303 113	256 720	559 833
LX Mtumtum	303 113	286 717	589 830
P Pouroulis	303 113	74 539	377 652
OP Sadler	303 113	180 627	483 740
APE Sedibe	303 113	201 917	505 030
JHM Schurink**	303 113	74 406	377 519
MT Witteveen***	183 616	43 250	226 866
	2 403 045	1 373 088	3 776 133

*** Appointed 7 March 2014 and resigned on 30 June 2015.*
**** Appointed 5 September 2014.*
***** Appointed 1 July 2015.*
Resigned with effect from 1 July 2014.

	Company 31 March 2016 R	Company 31 March 2015 R
37 Related-party transactions and balances		
All material intergroup transactions are eliminated on consolidation. The following transactions were carried out with related parties:		
Subsidiaries		
Keaton Administrative and Technical Services Proprietary Limited (100% subsidiary)		
• Intercompany loan balance (interest-free)	**28 459 296**	8 472 369
• Intercompany loan balance (interest at prime)	**8 636 645**	7 845 270
• Interest on interest-bearing loan balance	**791 375**	685 293
• Management fee charged by Keaton Energy (excluding VAT) – management, administration and accounting services	**3 307 582**	4 162 718
Keaton Mining Proprietary Limited (100% subsidiary)		
• Preference share investment balance (dividends at three-month JIBAR +4%)	**457 012 067**	487 694 256
• Interest on preference share investment (dividends at three-month JIBAR +4%)	**66 091 754**	65 750 326
• Pledge and cession of cash for the issue of guarantees on behalf of Keaton Mining Proprietary Limited	**933 409**	933 409
• Financial guarantee contract balance	**14 319 826**	19 373 883
• Amortisation of financial guarantee	**5 054 057**	5 054 057
• Dividend income on ordinary share investment	**21 439 825**	39 082 733
Amalahle Exploration Proprietary Limited (100% subsidiary)		
• Preference share investment balance (dividends at prime +5% – not accrued)	**9 900 000**	9 200 000
• Interest on preference share investment (dividends at prime +5%)	**–**	500 000
• Intercompany loan balance (interest at prime +2%)	**50 505**	361 588
• Interest on interest-bearing loan balance	**9 542**	18 607
• Pledge and cession of cash for the issue of guarantees on behalf of Amalahle Exploration Proprietary Limited	**360 000**	360 000
Mafla Coal Proprietary Limited (74% subsidiary)		
• Preference share investment balance (dividends at prime +5% – not accrued)	**3 900 000**	3 900 000
• Intercompany loan balance (interest-free)	**690 969**	690 969
• Pledge and cession of cash for the issue of guarantees on behalf of Mafla Coal Proprietary Limited	**125 172**	125 172
Labohlano Trading 46 Proprietary Limited (100% subsidiary)		
• Preference share investment balance (dividends at prime +5% – not accrued)	**14 800 000**	13 300 000
• Intercompany loan balance (interest at prime +2%)	**46 641**	479 614
• Interest on interest-bearing loan balance	**21 135**	18 536
Leeuw Mining and Exploration Proprietary Limited (100% subsidiary)		
• Preference share investment balance (dividends at prime +5%)	**24 776 481**	21 174 678
• Intercompany loan balance (interest at JIBAR +1.5%)	**24 091 847**	22 141 420
• Intercompany loan balance (interest at prime +2%)	**169 507 159**	73 340 660
• Intercompany loan balance (interest at 90-day JIBAR +7%)	**92 509 530**	81 029 486
• Instalment sale agreements (interest at prime)	**10 411 272**	10 317 600
• Interest on interest-bearing loan balances	**28 774 144**	24 304 888
• Interest on preference share investment	**3 328 023**	4 178 844
• Interest on instalment sale agreement	**990 373**	945 218

Balances are disclosed before impairment provisions. Refer to note 13 for the company's share investments in subsidiary companies.

Notes to the financial statements continued

for the year ended 31 March 2016

	Company 31 March 2016 R	Company 31 March 2015 R
37 Related-party transactions and balances *(continued)*		
Izwi Coal Proprietary Limited (60% subsidiary)		
• Intercompany loan balance (interest-free)	**3 014**	3 014
• Preference share investment balance (dividends at prime +5% – not accrued)	**860 000**	860 000
Intshe Coal Proprietary Limited (60% subsidiary)		
• Intercompany loan balance (interest-free)	**1 022 087**	1 022 087
Rafcoal Mining Proprietary Limited (74% subsidiary)		
• Intercompany loan balance (interest-free)	**179 940**	179 940
Xceed Resources Limited (100% subsidiary)		
• Intercompany loan balance (interest-free)	**7 484 258**	6 234 258
Neosho Trading 86 Proprietary Limited (74% subsidiary)		
• Intercompany loan balance (money market interest rate)	**(2 873 043)**	37 610 309
• Interest on interest-bearing loan balance	**(2 003 579)**	–
Leeuw Braakfontein Colliery Proprietary Limited (100% subsidiary)		
• Intercompany loan balance (interest-free)	**3 120 340**	–

	Group 31 March 2016 R	Group 31 March 2015 R	Company 31 March 2016 R	Company 31 March 2015 R
Transactions and balances with other related parties				
Roodepoort HMPL Proprietary Limited[1]				
• Interest-free loan with no fixed terms of repayment	**2 530 704**	2 528 130	**–**	–
Bankfontein HMPL Proprietary Limited[1]				
Interest-free loan with no fixed terms of repayment	**2 690 344**	2 688 369	**–**	–
Arxo Logistics Proprietary Limited				
• Rental expense	**140 651**	54 868	**–**	–
Gunvor SA				
• Anthracite sales	**–**	130 909 547	**–**	–
• Interest on financial liability – loan[2]	**913 399**	–	**–**	–
• Financial liability – loan[2]	**65 287 676**	–	**–**	–
• Payable	**–**	381 191	**–**	–
Rutendo Mining Proprietary Limited				
• Purchase of interest in subsidiary – cash	**3 000 000**	–	**3 000 000**	–
• Purchase of interest in subsidiary – shares issued	**150 649 026**	–	**150 649 026**	–
• Purchase of interest in subsidiary – payable	**3 000 000**	–	**3 000 000**	–
• Ordinary dividends	**7 532 912**	13 731 771	**–**	–
Camden Bay Investments 64 Proprietary Limited				
• Purchase of interest in subsidiary – cash	**1 000 000**	–	**1 000 000**	–
Andisa Capital Proprietary Limited				
• Treasury services	**240 380**	–	**111 596**	–

[1] 15% equity investment held. Included in investments and loans on the statement of financial position.

[2] Refer to note 24 for additional disclosure.

37 Related-party transactions and balances *(continued)*

Key management compensation

Refer to notes 7 and 36. Key management is represented by the Executive Directors of the company.

Interest of directors in contracts and other related parties

P Pouroulis and JD Salter are directors of Tharisa Minerals Limited (Tharisa). Arxo Logistics Proprietary Limited, which is the wholly owned subsidiary of Tharisa, sub-let a portion of Eland House, The Braes, 3 Eaton Road, Bryanston, 2021, to KATS, a subsidiary of the company. Arxo earned rental income from the letting of the property. The lease is for 31 months commencing on 1 October 2014 and covers a total floor area of 57.63m^2.

APE Sedibe and AB Glad are directors and shareholders of Rutendo Mining, the previous non-controlling shareholder of Keaton Mining.

APE Sedibe is a director of Andisa Capital Proprietary Limited. Andisa Capital Proprietary Limited supplied treasury-related services to Keaton Energy. She is also a director and shareholder of Camden Bay Investments 64 Proprietary Limited, the previous non-controlling shareholder of Amalahle.

General

Some of the directors of Keaton Energy are also directors of its subsidiaries. Various shareholders' agreements, funding agreements and management agreements exist between the group's entities.

Other than the interest of directors in contracts listed above, no director of Keaton Energy has any material beneficial interests, whether direct or indirect, in transactions that were effected by the group during the current or immediate preceding financial year, that remain in any respect outstanding or unperformed.

38 Subsidiary companies

Keaton Energy's interests in subsidiary companies were as follows:

	At 31 March 2016 % shareholding	At 31 March 2015 % shareholding
Keaton Administrative and Technical Services Proprietary Limited	**100**	100
Keaton Mining Proprietary Limited	**100**	74
Amalahle Exploration Proprietary Limited#	**100**	74
Labohlano Trading 46 Proprietary Limited	**100**	74
Leeuw Mining and Exploration Proprietary Limited#	**100**	74
Leeuw Braakfontein Colliery Proprietary Limited*	**100**	74
Leeuw Koudelager Colliery Proprietary Limited*#	**100**	74
Leeuw Vaalkrantz Colliery Proprietary Limited*#	**100**	74
Xceed Resources Limited	**100**	100
Focus Coal Investments Proprietary Limited**	**100**	100
Neosho Trading 86 Proprietary Limited**	**74**	74
Ausco Finance Proprietary Limited**	**100**	100
Ausco Services Proprietary Limited**	**100**	100
Izwi Coal Proprietary Limited	**60**	60
Rafcoal Mining Proprietary Limited	**74**	74
Intshe Coal Proprietary Limited	**60**	60
Mafla Coal Proprietary Limited	**74**	74

Classified as assets held-for-sale (refer to note 10).

* *Indirect (subsidiaries of LME).*

** *Indirect (subsidiaries of Xceed).*

Notes to the financial statements continued

for the year ended 31 March 2016

39 Dividends

No dividends have been declared nor are any proposed for the year ended 31 March 2016 (31 March 2015: Rnil).

40 Going concern

At 31 March 2016, the group's current liabilities exceeded its current assets by R120.3 million (2015: R42.9 million) and the company's current liabilities exceeded its current assets by R11.2 million (2015: R6.4 million).

This increase in current liabilities in the group is attributable mainly to the initial recognition of a financial liability of R66.9 million payable to Gunvor SA (Gunvor), as described in more detail in note 24 to the financial statements. At 31 March 2016, the entire liability was included in current liabilities as the group had entered into commercial negotiations with Gunvor to agree revised repayment terms, but was unable to reach agreement by year-end. Subsequent to year-end, the group and Gunvor agreed terms that will see a significant portion of the liability being reclassified to non-current liabilities, thus alleviating the net current liability position of the group.

The group continues to generate cash in line with budget consistently from its long-life Vanggatfontein Colliery whereby it delivers coal under a long-term offtake agreement to Eskom and through sales to its domestic metallurgical customers. Cash generated from this operation, together with the disposal of the significant loss making Vaalkrantz Colliery, the directors' authority to issue further shares for cash and the group's undrawn overdraft facility (refer to note 24) will ensure adequate funding for the group to continue to operate for the foreseeable future. In addition, the company has subordinated its claims against a number of its subsidiaries in favour and for the benefit of other creditors of those companies, subject to certain claims and conditions as set out in the subordination agreements.

Accordingly, the financial statements of the group and company continue to be prepared on the going concern basis.

41 Significant events after 31 March 2016 up to the date of this report

(i) Included in trade and other payables (note 29) for the year ended 31 March 2015 was an amount of R42.5 million for contract mining services rendered by Megacube to Keaton Mining. As a result of several alleged breaches of the contract mining agreement, Keaton Mining disputes that this amount is due and owing to Megacube. As a result of Megacube's breaches of the contract mining agreement, Keaton Mining has lodged several counterclaims against Megacube for damages and losses sustained. Keaton Mining delivered a notice of termination of the agreement to Megacube on 16 May 2012 in accordance with the provisions of the agreement and subsequently terminated the agreement on 5 July 2012. The matter was referred to arbitration which took place during February 2016 and March 2016. On 9 March 2016, and by agreement between the parties, an interim award was made in terms whereof the merits of the dispute were separated from the quantum. Closing arguments regarding the merits were heard in April 2016. On 28 April 2016, an award was made in favour of Keaton Mining regarding the merits of the dispute. Refer to note 32 for additional disclosure.

The quantum of the claims awarded will be dealt with in the coming months. A reliable estimate of the amount to be received can only be made once the outcome of the quantification portion of the arbitration has been finalised/settled.

On 10 June 2016, Megacube filed an application in the High Court of Gauteng to have the arbitration award reviewed and set aside. This application will be opposed. The company's management and its legal advisers strongly believe that this application is without merit.

(ii) The company has entered into a Sale of Shares and Claims Agreement with BER on or about 11 February 2016 as announced on 15 February 2016 to dispose of its wholly owned subsidiary LME and its wholly owned subsidiary Amalahle. There are still a number of suspensive conditions which have to be met for the sale to become effective, including section 11 consent from the Minister of Mineral Resources in terms of the MPRDA.

The company also simultaneously entered into a Management Agreement with WMR, a related party to BER, for the management of LME up to and until the Sale of Shares and Claims Agreement with BER becomes unconditional.

Notwithstanding continuous efforts by both LME and WMR to minimise losses exacerbated by the ongoing global decline in coal prices, *force majeure* declared on LME by its biggest customer and the unavailability of water due to the continued drought in the region, management decided to place Vaalkrantz Colliery on care and maintenance with effect from 1 May 2016. LME has embarked on a section 189A process for the retrenchment of all employees and is currently in consultation with all relevant stakeholders. The Sale of Shares and Claims Agreement as well as the Management Agreement are still effective. As a consequence of the occurrence of a *force majeure* event, namely the drought which has resulted in Vaalkrantz Colliery having no water within which to conduct its operations, some of the clauses of the Management Agreement had been temporarily suspended.

42 Directors' interest in stated capital

	Nature of interest	Number of ordinary shares	Percentage of issued stated capital as at year-end
Director			
31 March 2016			
P Pouroulis#	Indirect, beneficial	**43 738 428**	**14.98**
JD Salter#	Indirect, beneficial	**2 450 000**	**0.84**
APE Sedibe#	Indirect, beneficial	**35 669 897**	**12.22**
AB Glad	Indirect, beneficial	**34 271 077**	**11.74**
AB Glad	Direct, beneficial	**68 000**	**0.02**
J Rossouw	Direct, beneficial	**50 000**	**0.02**
OP Sadler#	Direct, beneficial	**114 285**	**0.04**
		116 361 687	**39.86**
31 March 2015			
P Pouroulis#	Indirect, beneficial	43 738 428	19.49
JD Salter#	Indirect, beneficial	2 450 000	1.09
APE Sedibe#	Indirect, beneficial	3 166 723	1.41
AB Glad	Indirect, beneficial	3 042 537	1.36
OP Sadler#	Direct, beneficial	114 285	0.05
		52 511 973	23.40

Non-Executive Director.

There has been no change in the directors' interest in the stated capital of the company between the end of the financial year and the date of approval of the Annual Financial Statements.

43 Directors' service contracts

Executive Directors' service contracts

The terms and conditions regulating the provision of services by the Executive Directors to the company are regulated by employment contracts with the company or its subsidiaries. All Executive Directors have identical rolling employment contracts containing a six-month notice period. Where appropriate and applicable to the position, a restraint of trade agreement will be entered into. The terms and conditions contained in the agreements entered into with the Executive Directors are normal for agreements of this nature. Unless termination of employment occurs as a result of the misconduct or poor performances of the Executive Director or his/her resignation or retirement (other than under circumstances of constructive dismissal), upon termination of employment the Executive Director shall be entitled to a severance payment equal to six months' remuneration, less any other payments made or becoming due to the Executive Director as a result of termination of employment.

Non-Executive Directors' service contracts

The terms and conditions regulating the provision of services by the Non-Executive Directors to the company are regulated by service contracts with the company or its subsidiaries. All Non-Executive Directors have identical rolling service contracts. Save for restrictions concerning the non-solicitation of staff for a period of 12 months after termination of service, the service contracts do not contain any restraint of trade provisions. The terms and conditions contained in the agreements entered into with the Non-Executive Directors are normal for agreements of this nature.

Shareholders' information

Analysis of shareholders

As at 31 March 2016

Shareholders' information as at 31 March 2016

Analysis of ordinary shareholders	Number of shareholders	Number of shares	Percentage of issued stated capital
Holdings of <100 000 shares	1 983	17 661 216	6.05
Holdings of 100 000 to 499 999	90	17 240 690	5.90
Holdings of 500 000 to 999 999	11	7 018 258	2.41
Holdings of 1 000 000 to 4 999 999	18	37 960 565	13.00
Holdings >5 000 000	7	212 113 527	72.64
Total	2 109	291 994 256	100

Major shareholders	Number of shares	Percentage of issued share capital
Shareholders holding 10% or more		
Plusbay Limited	78 476 411	26.88
Rutendo Holdings Proprietary Limited	69 940 974	23.95
Shareholders holding 5% or more		
Langa Trust	19 208 428	6.58
The Axel Trust	18 480 000	6.33
Mrs Artemis Pouroulis	14 898 714	5.10
Shareholders holding less than 5%		
Other shareholders	90 989 729	31.16
	291 994 256	100.00

Public and non-public shareholders	Number of shareholders	Number of shares	Percentage of issued stated capital
Public	2 102	97 156 158	33.27
Non-public			
Directors and associates	6	116 361 687	39.85
Persons interested (other than directors), directly or indirectly, in 10% or more	1	78 476 411	26.88
Total	2 109	291 994 256	100.00

Shareholders' diary

Financial year-end	31 March 2016
Provisional annual results announcement	27 June 2016
Annual financial statements published	12 August 2016
Integrated Annual Report published	6 September 2016
Annual General Meeting	7 October 2016
Interim results announcement	November 2016

Notice of Annual General Meeting

KeatonEnergy»
Keaton Energy Holdings Limited

(Incorporated in the Republic of South Africa)
(Registration number: 2006/011090/06)
JSE share code: KEH ISIN: ZAE000117420
("Keaton Energy" or "the company" or "the group")

Notice is hereby given that the Annual General Meeting of shareholders of Keaton Energy Holdings Limited will be held at 10:00 on Friday, 7 October 2016 at Aquamarine, Ground Floor, The Forum, Wanderers Building, The Campus (Dimension Data), 57 Sloane Street (corner Main Street), Bryanston, to consider and, if deemed fit, adopt with or without modification, the ordinary and special resolutions as set out in this notice of Annual General Meeting and to deal with such other business as may be dealt with at the Annual General Meeting.

The Board of Directors of the company (the Board) has determined that, in terms of section 62(3)(a), as read with section 59 of the Companies Act of South Africa (the Companies Act), the record date for the purpose of determining which shareholders are entitled to participate in and vote at the Annual General Meeting is Friday, 30 September 2016. Accordingly, the last day to trade in the company's shares in order to be recorded in the register to be entitled to vote will be Tuesday, 27 September 2016.

Shareholders are advised that, in terms of section 63(1) of the Companies Act, any person attending or participating in an Annual General Meeting of shareholders must present reasonably satisfactory identification before being entitled to participate in and vote at the Annual General Meeting and the person presiding at the Annual General Meeting must be reasonably satisfied that the right of any person to participate in and vote (whether as shareholder or proxy for a shareholder) has been reasonably verified. Forms of identification that will be accepted include original and valid identity documents, driver's licences or valid passports.

The Integrated Annual Report is available on the company's website at the following address: www.keatonenergy.co.za.

Presentation of group Social and Ethics Committee Report

In accordance with regulation 43(5)(c) of the Companies Act, the Social and Ethics Committee Report included in the Integrated Annual Report will be presented to shareholders at the Annual General Meeting.

RESOLUTIONS FOR CONSIDERATION AND ADOPTION

Ordinary resolutions: ordinary business

1. Ordinary resolution number 1

Acceptance of Annual Financial Statements

"RESOLVED THAT the audited Annual Financial Statements of the company and its subsidiaries for the year ended 31 March 2016, including the Directors' Report, Audit Committee's Report and Independent Auditor's Report as required in terms of section 30(3)(d) of the Companies Act be and are hereby received and accepted."

Additional information in relation to ordinary resolution number 1

The complete audited Annual Financial Statements of the company and the group for the year ended 31 March 2016, including the Directors' Report, Audit Committee's Report and Independent Auditor's Report are included in the Integrated Annual Report.

The shareholders are advised that the company's complete audited Annual Financial Statements for the years ended 31 March 2015 and 31 March 2016 are available on the company's website at the following address: www.keatonenergy.co.za, and will be available for a period of no less than 12 months from the date of this notice.

Notice of Annual General Meeting continued

2. Ordinary resolution number 2 (comprising ordinary resolutions number 2.1 to 2.3, all inclusive)

Re-election of directors

"RESOLVED THAT by way of separate ordinary resolutions, each of:

2.1 JD Salter who retires by rotation at this Annual General Meeting in accordance with the company's Memorandum of Incorporation and who, being eligible and available for re-election, be and is hereby re-elected as Non-Executive Chairman of the company;

2.2 P Pouroulis, who retires by rotation at this Annual General Meeting in accordance with the company's Memorandum of Incorporation and who, being eligible and available for re-election, be and is hereby re-elected as a Non-Executive Director of the company; and

2.3 APE Sedibe, who retires by rotation at this Annual General Meeting in accordance with the company's Memorandum of Incorporation and who, being eligible and available for re-election, be and is hereby re-elected as a Non-Executive Director of the company."

Additional information in respect of ordinary resolution number 2

In terms of clause 32.3.3 of the company's Memorandum of Incorporation, one-third of the Non-Executive Directors of the company for the time being are required to retire from office at each Annual General Meeting. The directors of the company to retire in every year shall be those who have been longest in office since their last election, but as between persons who were elected as directors of the company on the same day, those to retire shall, unless otherwise agreed among themselves, be determined by lot. A retiring director shall be eligible for re-election.

Dr JD Salter, Mr P Pouroulis and Ms APE Sedibe all retire in accordance with clause 32.3.3 of the company's Memorandum of Incorporation and, being eligible, offer themselves for re-election.

The reason for the proposed ordinary resolution number 2 is to elect, in accordance with the company's Memorandum of Incorporation and by way of a series of votes, each of which is on the candidacy of a single individual to fill a single vacancy, as required by section 68(1) of the Companies Act, Dr JD Salter as Non-Executive Chairman of the company and Mr P Pouroulis and Ms APE Sedibe as Non-Executive Directors of the company.

The Board recommends to shareholders the re-election of each of the retiring directors as set out in each of ordinary resolutions number 2.1, 2.2 and 2.3.

A brief *curriculum vitae* in respect of each director referred to in ordinary resolution number 2 above appears in the Integrated Annual Report.

3. Ordinary resolution number 3 (comprising ordinary resolutions number 3.1 to 3.3, all inclusive)

Re-election of the Audit Committee members and Chairman

"RESOLVED THAT, by way of separate ordinary resolutions:

3.1 Mr LX Mtumtum, be and is hereby re-elected as a member and Chairman of the company's Audit Committee;

3.2 Mr GH Kemp, be and is hereby re-elected as a member of the company's Audit Committee;

3.3 Mr OP Sadler, be and is hereby re-elected as a member of the company's Audit Committee;

in terms of section 94(2) of the Companies Act to hold office until the next Annual General Meeting of the company and to perform the duties and responsibilities stipulated in section 94(7) of the Companies Act and King Report on Governance for South Africa 2009 (King III) and to perform such other duties and responsibilities as may from time to time be delegated by the Board for the company and all of its subsidiary companies."

Additional information in respect of ordinary resolution number 3

In terms of section 94(2) of the Companies Act, a public company must at each Annual General Meeting elect an Audit Committee comprising at least three members who are directors and who meet the criteria of section 94(4) of the Companies Act. In terms of Regulation 42 of the Companies Act Regulations, 2011, one-third of the members of the Audit Committee must have appropriate academic qualifications or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resources management.

A brief *curriculum vitae* of each of the Independent Non-Executive Directors mentioned in ordinary resolution number 3 appears in the Integrated Annual Report.

The Board is satisfied that the proposed members of the Audit Committee meet all the requirements of section 94(4) of the Companies Act, are independent according to King III and possess the required qualifications and experience as prescribed in the Companies Act Regulations, 2011.

4. Ordinary resolution number 4

Re-appointment of external auditors

"RESOLVED THAT KPMG Inc. (with Mr Willem Pretorius being the designated auditor), be and is hereby reappointed as the external auditors of the company and of the group for the financial year ending 31 March 2017 and to hold office until conclusion of the next Annual General Meeting of the company, and that their remuneration for the financial year ending 31 March 2017 be determined by the Audit Committee."

Additional information in respect of ordinary resolution number 4

In accordance with section 90(1) of the Companies Act, KPMG Inc. is proposed to be reappointed as the external auditors of the company, as nominated by the company's Audit Committee, until the conclusion of the company's next Annual General Meeting. The Audit Committee conducted an assessment of the performance and the independence of the external auditors and considered whether or not the external auditors comply with the requirements of sections 90(2) and 90(3) of the Companies Act and section 22 of the JSE Limited (JSE) Listings Requirements and the Board considered and accepted the findings.

The Board is satisfied that the proposed external auditors, being KPMG Inc., and Mr Willem Pretorius, the individual registered auditor, who will undertake the audit of the company and the group for the financial year ending 31 March 2017, comply with the relevant provisions of the Companies Act and are duly accredited by the JSE.

The percentage of voting rights required for ordinary resolutions number 2, 3 and 4 to be adopted is more than 50% of the voting rights exercised on such resolution.

Ordinary resolutions: special business

5. Ordinary resolution number 5

Control of authorised but unissued shares

"RESOLVED THAT the authorised but unissued shares in the capital of the company limited to 15% (fifteen percent) of the number of listed equity securities in issue at the date of this notice being 291 994 256 ordinary shares, be and are hereby placed under the control and authority of the directors and that they be and are hereby authorised to allot, issue, grant options over and otherwise dispose of such shares to such persons on such terms and conditions and at such times as they may from time to time and at their discretion deem fit, subject to the provisions of the Companies Act, the company's Memorandum of Incorporation and the JSE Listings Requirements. Such authority shall be valid until the date of the next Annual General Meeting of the company or for 15 (fifteen) months from the date on which ordinary resolution number 5 is adopted, whichever period is shorter."

Additional information in respect of ordinary resolution number 5

The reason for ordinary resolution number 5 is that in terms of the company's Memorandum of Incorporation and subject to the provisions of the Companies Act, and the JSE Listings Requirements, the shareholders of the company may authorise the directors to allot, issue, grant options over or otherwise dispose of such shares, as the directors in their discretion deem fit. The effect of ordinary resolution number 5 is to ensure that the directors have the necessary flexibility to allot and issue shares and grant options as they deem fit. It is noted that an issue as contemplated in sections 41(1) and (3) of the Companies Act must first be approved by way of special resolution in terms of section 41 of the Companies Act and is not authorised in terms of this resolution.

The percentage of voting rights required for ordinary resolution number 5 to be adopted is more than 50% of the voting rights exercised on such resolution.

6. Ordinary resolution number 6

General authority to issue shares for cash

"RESOLVED THAT, subject to ordinary resolution number 5 being passed, the directors of the company be and are hereby authorised, by way of a general authority, to allot and issue shares (and/or any options or convertible securities) for cash to such persons on such terms and conditions as the directors may from time to time in their discretion deem fit, subject to the provisions of the company's Memorandum of Incorporation, the Companies Act, and the JSE Listings Requirements and subject to the following limitations, namely that:

- The equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- Any such issue will only be made to "public shareholders" as defined in the JSE Listings Requirements and not to related parties, unless the JSE otherwise agrees;
- In respect of securities which are the subject of the general issue of shares for cash, such issue may not exceed 43 799 138 (forty-three million, seven hundred and ninety-nine thousand, one hundred and thirty-eight), representing 15% (fifteen percent) of the number of listed equity securities in issue as at the date of this notice being 291 994 256 ordinary shares, provided that:
  - any equity securities issued under this authority during the period must be deducted from the number above;
  - in the event of a sub-division or consolidation of issued equity securities during the period contemplated above, the existing authority must be adjusted accordingly to represent the same allocation ratio;
  - the calculation of the listed equity securities is a factual assessment of the listed equity securities as at the date of the notice of Annual General Meeting, excluding treasury shares;

Notice of Annual General Meeting continued

6. Ordinary resolution number 6 *(continued)*

General authority to issue shares for cash (continued)

- This authority shall be valid until the company's next Annual General Meeting or for 15 (fifteen) months from the date on which this ordinary resolution is adopted, whichever period is shorter;
- A SENS announcement giving full details of the issue, will be published at the time of any issue representing, on a cumulative basis within the period of this authority, 5% (five percent) or more of the number of shares in issue prior to the issue concerned; and
- The maximum discount permitted at which equity securities may be issued is 10% (ten percent) of the volume weighted average traded price on the JSE of those shares measured over the 30 (thirty) business days prior to the date that the price of the issue is agreed between the company and the party subscribing for the securities. The JSE should be consulted for a ruling if the company's securities have not traded in such 30 (thirty) business day period."

Additional information in respect of ordinary resolution number 6

In accordance with the company's Memorandum of Incorporation, as well as the JSE Listings Requirements, the shareholders of the company have to approve a general issue of shares for cash. This authority will be subject to the company's Memorandum of Incorporation, the Companies Act and the JSE Listings Requirements.

The effect of ordinary resolution number 6 is that the directors will be able to issue the authorised but unissued ordinary shares in the share capital of the company for cash, as and when suitable business opportunities arise, subject to the JSE Listings Requirements, the restrictions/conditions set out in the authority and the Memorandum of Incorporation of the company.

This ordinary resolution number 6 is required, under the JSE Listings Requirements, to be passed by achieving a 75% (seventy-five percent) majority of the votes cast in favour of such resolution by all shareholders present or represented by proxy and entitled to vote at the Annual General Meeting.

7. Ordinary resolution number 7

Approval of Remuneration Policy

"RESOLVED THAT, the group Remuneration Policy as set out in the Integrated Annual Report be and is hereby approved by way of a non-binding advisory vote, as recommended in King III."

Additional information in respect of ordinary resolution number 7

In terms of King III recommendations, every year, the company's Remuneration Policy should be tabled for a non-binding advisory vote at the Annual General Meeting. The non-binding advisory vote is to enable shareholders of the company to express their views on the remuneration policies adopted and on their implementation. Accordingly, the shareholders of the company are requested to endorse the company's Remuneration Policy as recommended by King III.

As this matter is non-binding, no minimum voting threshold is needed for ordinary resolution number 7.

8. Special resolution number 1

Non-Executive Directors' remuneration

"RESOLVED as a special resolution in terms of section 66(9) of the Companies Act, that the company be and is hereby authorised to pay the following annual remuneration to its Non-Executive Directors for their services as directors for a period of two years from the date of this Annual General Meeting or until the Non-Executive Directors' remuneration is amended by way of special resolution of shareholders, whichever comes first:

	Board		Committees	
	Chairman	Member	Chairman	Member
2016	R364 319	R314 771	R62 954	R47 215
2017	R386 178	R333 657	R66 731	R50 048

9. Special resolution number 2

Non-Executive Directors' remuneration

"RESOLVED, subject to special resolution 1 being passed, as a special resolution in terms of section 66(9) of the Companies Act, the company be and is hereby authorised to split the annual remuneration to its Non-Executive Directors into a retainer portion and an attendance portion:

	Board				Committees			
	Retainer		Attendance per meeting		Retainer		Attendance per meeting	
	Chairman	Member	Chairman	Member	Chairman	Member	Chairman	Member
2016*	R364 319	R314 771			R62 954	R47 215		
2017**	R231 706	R200 193	R38 618	R33 366	R40 039	R30 028	R6 673	R5 005

* *As approved at the Annual General Meeting held on 6 October 2014, based on an annual fee for the year.*
** *New proposed annual fee is split between a retainer portion, and an attendance portion."*

Additional information in respect of special resolution numbers 1 and 2

In terms of sections 66(8) and 66(9) of the Companies Act, remuneration may only be paid to directors for their services as directors in accordance with a special resolution approved by the shareholders of the company within the previous two years and if not prohibited in terms of the company's Memorandum of Incorporation. Therefore, the reason for and the effect of special resolution numbers 1 and 2 is to approve the payment of and the remuneration payable by the company to its Non-Executive Directors for their services as directors of the company in terms of section 66 of the Companies Act. The fees payable to the Non-Executive Directors are detailed above.

The Remuneration Policy forms part of the Remuneration Report included in the Integrated Annual Report.

Furthermore, in terms of King III, remuneration payable to Non-Executive Directors should be approved by shareholders in advance or within the previous two years.

The percentage of voting rights required for special resolution numbers 1 and 2 to be adopted is more than 75% of the voting rights exercised on such resolution.

10. Special resolution number 3

Financial assistance as contemplated in section 44 of the Companies Act

"RESOLVED THAT in terms of the Companies Act, the provision by the company of any direct or indirect financial assistance as contemplated in section 44 of the Companies Act by way of a loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or a related or inter-related company (or any future related or inter-related company), or for the purchase of any securities of the company or a related or inter-related company (or any future related company or inter-related company), be and is hereby approved, subject to compliance with the requirements of:

- the Companies Act, in particular section 44 thereof;
- the company's Memorandum of Incorporation;
- any other laws that may apply from time to time,

such authority to endure for a period of two years."

Additional information in respect of special resolution number 3

Section 44 of the Companies Act applies to the financial assistance so provided by a company to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or a related or inter-related company, or for the purchase of any securities of the company or a related or inter-related company.

The Board may not authorise the company to provide direct or indirect financial assistance as contemplated in section 44 of the Companies Act unless:

- The particular provision of financial assistance is pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance, either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category.
- The Board is satisfied that, immediately after providing the financial assistance, the company would satisfy the "solvency and liquidity test" (being the test set out in section 4(1) of the Companies Act) and the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.
- The Board has ensured that any conditions or restrictions in respect of granting the financial assistance set out in the company's Memorandum of Incorporation have been satisfied.

Notice of Annual General Meeting continued

10. Special resolution number 3 *(continued)*

The reason for special resolution number 3 is to obtain approval from the shareholders of the company to enable the company to provide financial assistance, when the need arises, in accordance with the provisions of section 44 of the Companies Act, the company's Memorandum of Incorporation and any other applicable laws that may exist from time to time. The effect of special resolution number 3 is that the company will have the necessary authority to authorise and provide the financial assistance as contemplated in section 44 as and when required.

The percentage of voting rights required for special resolution number 3 to be adopted is more than 75% of the voting rights exercised on such resolution.

11. Special resolution number 4

General authority to issue shares to persons referred to in section 41 of the Companies Act

"RESOLVED THAT, subject to ordinary resolution number 6 being passed, the directors of the company be and are hereby authorised to issue shares or securities convertible into shares, grant options contemplated in section 42, and grant any other rights exercisable for securities to persons contemplated in section 41(1) of the Companies Act, subject to the provisions of the Companies Act, the company's Memorandum of Incorporation and the JSE Listings Requirements."

Additional information in respect of special resolution number 4

In terms of section 41(1) of the Companies Act, a special resolution is required to be passed by the shareholders of the company for the allotment and issue of shares to directors, future directors, prescribed officers or future prescribed officers of the company.

The reason for special resolution number 4 is for the shareholders of the company to authorise the directors of the company to allot and issue shares to directors, future directors, prescribed officers and future prescribed officers of the company.

The effect of special resolution number 4 is to ensure that the directors have the authority to allot and issue shares to the directors, future directors, prescribed officers or future prescribed officers of the company.

The percentage of voting rights required for special resolution number 4 to be adopted is more than 75% of the voting rights exercised on such resolution.

12. Special resolution number 5

General authority to repurchase shares

"RESOLVED THAT the company, and any of its subsidiaries, be and are hereby authorised, by way of a general authority, in terms of the provisions of the JSE Listings Requirements, the Companies Act and as permitted by the company's Memorandum of Incorporation, to acquire, as a general repurchase, the issued ordinary shares of the company, upon such terms and conditions and in such amounts as the Board may from time to time determine, but subject to the applicable requirements of the company's Memorandum of Incorporation, the provisions of the Companies Act and the JSE Listings Requirements, where applicable, and provided that:

(a) The number of ordinary shares in the aggregate acquired in any one financial year shall not exceed 20% (twenty percent) of the company's ordinary shares in issue at the date on which this special resolution number 5 is passed.

(b) The repurchase of shares will be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty (reported trades are prohibited).

(c) The company has been given authority to repurchase its shares by its Memorandum of Incorporation.

(d) This general authority shall only be valid until the company's next Annual General Meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution number 5.

(e) In determining the price at which the company's ordinary shares are acquired by the company in terms of this general authority, the maximum premium at which such ordinary shares may be acquired will be 10% (ten percent) of the volume weighted average of the market price at which such ordinary shares are traded on the JSE, as determined over the 5 (five) business days immediately preceding the date of the repurchase of such ordinary shares by the company.

(f) At any point in time, the company may only appoint 1 (one) agent to effect any repurchase(s) on the company's behalf.

(g) A resolution has been passed by the Board confirming that the Board has authorised the repurchase, that the company satisfied the solvency and liquidity test contemplated in the Companies Act and that since the solvency and liquidity test was performed, there have been no material changes to the financial position of the group.

(h) The company may not repurchase ordinary shares during a prohibited period, as defined in the JSE Listings Requirements, unless the company has a repurchase programme in place where the dates and quantities of the ordinary shares to be traded during the relevant period are fixed and not subject to any variation and full details of the programme have been supplied to the JSE in writing, prior to the commencement of the prohibited period.

12. Special resolution number 5 *(continued)*

General authority to repurchase shares

(i) A SENS announcement will be published giving such details as may be required in terms of the JSE Listings Requirements as soon as the company has cumulatively repurchased 3% of the number of shares in issue at the date of the passing of this special resolution number 5 and for each 3% in aggregate of the initial number of shares acquired thereafter.

(j) The Board undertakes that it will not implement the proposed authority to repurchase shares, unless the directors are of the opinion that, for a period of 12 (twelve) months after the date of the repurchase that:
- the company and the group will be able, in the ordinary course of business, to pay its debts;
- the assets of the company and the group, fairly valued in accordance with International Financial Reporting Standards, will be in excess of the liabilities of the company and the group;
- the share capital and reserves of the company and the group will be adequate for ordinary business purposes; and
- the working capital of the company and the group will be adequate for ordinary business purposes."

Additional information in respect of special resolution number 5

The reason for and effect of this special resolution number 5 is to grant the Board a general authority in terms of the JSE Listings Requirements, up to and including the date of the following Annual General Meeting of the company (provided that it shall not extend beyond 15 (fifteen) months from the date that this special resolution number 5 is passed), to approve the company's purchase of shares in itself, subject to the restrictions contained in special resolution number 5 and to authorise the company to acquire shares issued by the company in terms of the aforesaid approval. Please refer to the additional disclosure of information contained in this notice of Annual General Meeting, which disclosure is required in terms of the JSE Listings Requirements.

The percentage of the voting rights required for special resolution number 5 to be adopted is more than 75% of the voting rights exercised on such resolution.

Other disclosures in terms of section 11.26 of the JSE Listings Requirements

For the purposes of considering special resolution number 5 and in compliance with the JSE Listings Requirements, the information listed below has been included in the Integrated Annual Report:
- Major shareholders of Keaton Energy;
- Stated capital of Keaton Energy.

13. Special resolution number 6

Amendment of the Memorandum of Incorporation of the Company

"RESOLVED THAT in terms of sections 16(1)(c)(ii) and 16(5)(b)(ii) of the Companies Act, the existing Memorandum of Incorporation of the Company is to be amended by:

Deleting clause 9.2 in its entirety and replacing it with the following:
"Subject to the provisions of the Listings Requirements, if a fraction of a Share (or any form of Security) comes into being as a result of any corporate action, the Board shall treat such fractions in accordance with the JSE listings requirements."

which amendments are to take effect in accordance with section 16(9) of the Companies Act.

Additional information in respect of special resolution number 6

The reason for and effect of this special resolution number 6 is to ensure compliance with the recent amendments to the JSE Listing Requirements in respect of the treatment of fractional entitlements.

The percentage of the voting rights required for special resolution number 6 to be adopted is more than 75% of the voting rights exercised on such resolution.

Notice of Annual General Meeting continued

Material changes

There have been no material changes in the affairs or the financial position of the company and its subsidiaries since the date of signature of the audit report and the date of this notice of Annual General Meeting.

Directors' responsibility statement

The Board of Directors, whose names are given in the Integrated Annual Report collectively and individually accept full responsibility for the accuracy of the information pertaining to special resolution number 5 and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that special resolution number 5 contains all such information required by law and the JSE Listings Requirements.

Proxies

An ordinary shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy or proxies to attend and act in his/her stead. A proxy need not be a member of the company. For the convenience of registered members of the company, a form of proxy is attached hereto.

The attached form of proxy is only to be completed by those ordinary shareholders who:

- hold ordinary shares in certificated form; or
- are recorded on the sub-register in "own name" dematerialised form.

Securities depository participant

Ordinary shareholders who have dematerialised their ordinary shares through a central securities depository participant (CSDP) or broker other than with "own name" registration and who wish to attend the Annual General Meeting, must instruct their CSDP or broker to provide them with the relevant letter of representation to attend the Annual General Meeting in person or by proxy and vote. If they do not wish to attend in person or by proxy, they must provide the CSDP or broker with their voting instructions in terms of their custody agreement entered into between them and the CSDP or broker.

Unless you advise your CSDP or broker, in terms of your agreement, by the cut-off time stipulated therein, that you wish to attend the Annual General Meeting or send a proxy to represent you, your CSDP or broker will assume that you do not wish to attend the Annual General Meeting or send a proxy.

Voting

On a show of hands, every shareholder present in person or by proxy, and if a member is a body corporate, its representative, will have one vote and, on a poll, every shareholder present in person or by proxy and, if the person is a body corporate, its representative, will have one vote for every share held or represented by him/her.

If you are in any doubt as to what action you should take in respect of the resolutions provided for in this notice, please consult your CSDP, broker, banker, attorney, accountant or other professional adviser immediately.

Abstaining from voting will for the purposes of determining the number of votes exercised in support of a resolution, not be deemed as voted in support of a resolution.

Lodgement of forms of proxy

Forms of proxy should be lodged with the company at its registered address at Ground Floor, Eland House, The Braes, 3 Eaton Road, Bryanston, 2191, South Africa, or the company's transfer secretaries, Computershare Investor Services Proprietary Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001, South Africa, or posted to the company's transfer secretaries at PO Box 61051, Marshalltown, 2107, South Africa so as to be received by them by no later than 10:00 on Wednesday, 5 October 2016 in accordance with clause 29.4.3 of the company's Memorandum of Incorporation. Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person at the Annual General Meeting.

By order of the Board

AC Schutte-Bouwer

30 August 2016
Johannesburg

Form of proxy

KeatonEnergy»
Keaton Energy Holdings Limited

(Incorporated in the Republic of South Africa)
(Registration number: 2006/011090/06)
JSE share code: KEH ISIN: ZAE000117420
("Keaton Energy" or "the company" or "the group")

For use only by ordinary shareholders who:

- hold ordinary shares in certificated form (certificated ordinary shareholders); or
- have dematerialised their ordinary shares (dematerialised ordinary shareholders) and are registered with "own name" registration,

at the Annual General Meeting of shareholders of the company to be held at Aquamarine, Ground Floor, The Forum, Wanderers Building, The Campus (Dimension Data), 57 Sloane Street (corner Main Street), Bryanston, on Friday, 7 October 2016 at 10:00.

Dematerialised ordinary shareholders holding ordinary shares other than with "own name" registration who wish to attend the Annual General Meeting must inform their central securities depository participant (CSDP) or broker of their intention to attend the Annual General Meeting and request their CSDP or broker to issue them with the relevant letter of representation to attend the Annual General Meeting in person or by proxy and vote. If they do not wish to attend the Annual General Meeting in person or by proxy, they must provide their CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker. These ordinary shareholders must not use this form of proxy.

I/we

of (address)

being the holder(s) of Keaton Energy ordinary shares,

Do hereby appoint (see note 2):

1. of or failing him/her

2. of or failing him/her

3. the Chairman of the Annual General Meeting,

as my/our proxy to act for me/us and on my/our behalf at the Annual General Meeting which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at any adjournment thereof; and to vote for and/or against the resolutions and/or abstain from voting in respect of the Keaton Energy ordinary shares registered in my/our name(s), in accordance with the following instructions (see note 3):

	Number of ordinary shares		
	For	Against	Abstain
Ordinary resolution number 1: Acceptance of Annual Financial Statements			
Ordinary resolution number 2.1: Re-election of Dr JD Salter as a director			
Ordinary resolution number 2.2: Re-election of Mr P Pouroulis as a director			
Ordinary resolution number 2.3: Re-election of Ms APE Sedibe as a director			
Ordinary resolution number3.1: Re-election of Mr LX Mtumtum as member and Chairman of the Audit Committee			
Ordinary resolution number 3.2: Re-election of Mr GH Kemp as a member of the Audit Committee			
Ordinary resolution number 3.3: Re-election of Mr OP Sadler as a member of the Audit Committee			
Ordinary resolution number 4: Re-appointment of KPMG Inc. as external auditors of the company			
Ordinary resolution number 5: Control of authorised but unissued shares			
Ordinary resolution number 6: General authority to issue shares for cash			
Ordinary resolution number 7: Approval of the group Remuneration Policy			
Special resolution number 1: Approval of Non-Executive Directors' remuneration			
Special resolution number 2: Approval of Non-Executive Directors' remuneration			
Special resolution number 3: Financial assistance as contemplated in section 44 of the Companies Act			
Special resolution number 4: General authority to issue shares to persons referred to in section 41 of the Companies Act			
Special resolution number 5: General authority to repurchase shares			
Special resolution number 6: Amendment of the Memorandum of Incorporation			

Please indicate with an "X" in the space provided above how you wish your votes to be cast.

Signed at on 2016

Signature

Assisted by (where applicable)

Notes to the form of proxy

Each shareholder is entitled to appoint one or more proxies (who need not be a shareholder of the company) to attend, speak and vote in place of that shareholder at the Annual General Meeting.

Summary of shareholders' rights

In respect of proxy appointments as contained in section 58 of the Companies Act of South Africa (the Companies Act).

Please note that in terms of section 58 of the Companies Act:

This form of proxy must be dated and signed by the shareholder appointing the proxy.

- You may appoint an individual as a proxy, including an individual who is not a shareholder of the company, to participate in, speak and vote at a shareholders' meeting on your behalf.
- Your proxy may delegate his/her authority to act on your behalf to another person, subject to any restriction set out in this form of proxy.
- This form of proxy must be delivered to the transfer secretaries of the company, namely Computershare Investor Services Proprietary Limited, before your proxy exercises any of your rights as a shareholder at the Annual General Meeting.
- The appointment of your proxy or proxies will be suspended at any time to the extent that you choose to act directly and in person in the exercise of any of your rights as a shareholder at the Annual General Meeting.
- The appointment of your proxy is revocable unless you expressly state otherwise in this form of proxy.
- As the appointment of your proxy is revocable, you may revoke the proxy appointment by (i) cancelling it in writing, or making a later inconsistent appointment of a proxy and (ii) delivering a copy of the revocation instrument to the proxy and to the company. Please note the revocation of a proxy appointment constitutes a complete and final cancellation of your proxy's authority to act on your behalf as of the date stated in the revocation instrument, if any, or the date on which the revocation instrument was delivered to the company and the proxy as aforesaid.
- If this form of proxy has been delivered to the company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the company's Memorandum of Incorporation to be delivered by the company to you will be delivered by the company to you or your proxy or proxies, if you have directed the company to do so, in writing and paid any reasonable fee charged by the company for doing so.
- Your proxy is entitled to exercise, or abstain from exercising, any voting right of yours at the Annual General Meeting, but only as directed by you on this form of proxy.

The appointment of your proxy remains valid only until the end of the Annual General Meeting or any adjournment or postponement thereof unless it is revoked by you before then on the basis set out above.

Notes

1. The person whose name stands first on the form of proxy and who is present at the Annual General Meeting will be entitled to act as a proxy to the exclusion of those whose names follow thereafter.
2. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate box provided. If there is no clear indication as to the voting instructions to the proxy, the form of proxy will be deemed to authorise the proxy to vote or to abstain from voting at the Annual General Meeting as he/she deems fit in respect of all the shareholders' votes exercisable thereat.
3. If no proxy is inserted in the spaces provided, then the Chairman shall be deemed to be appointed as the proxy to vote or abstain as the Chairman deems fit.
4. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy. A proxy shall be entitled to demand that voting take place on a poll.
5. In order to be effective, forms of proxy must reach the registered address of the company or the company's transfer secretaries (as set out below) no later than 10:00 on Wednesday, 5 October 2016 being no later than 48 (forty-eight) hours before the Annual General Meeting to be held at 10:00 on Friday, 7 October 2016, provided that the Chairman of the Annual General Meeting may, in his discretion, accept proxies that have been delivered after the expiry of the aforementioned period up and until the time of commencement of the Annual General Meeting.
6. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company or waived by the Chairman of the Annual General Meeting. CSDPs or brokers registered in the company's sub-register voting on instructions from beneficial owners of shares registered in the company's sub-register, are requested that they identify the beneficial owner in the sub-register on whose behalf they are voting and return a copy of the instruction from such owner to the company or to the company's transfer secretaries, together with this form of proxy.
7. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies, but may not be accepted by the Chairman.
8. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the company.

Registered address
Ground Floor, Eland House
The Braes
3 Eaton Road
Bryanston
2191
South Africa

Transfer secretaries
Computershare Investor Services Proprietary Limited
Ground Floor
70 Marshall Street
Johannesburg
2001
South Africa

Definitions and abbreviations

AD	Air dried
AGM	Annual General Meeting
AMCU	Association of Mineworkers and Construction Union
ANFO	Ammonium Nitrate, Fuel Oil
BEE	Black Economic Empowerment
B-BBEE	Broad-based black economic empowerment
BCM	Bulk cubic metres
BER	Bayete Energy Resources Proprietary Limited
BFS	Bankable feasibility study
the Board	The Board of Directors of Keaton Energy Limited, as set out on pages 80 and 81
CEO	Chief Executive Officer. Keaton Energy's CEO is Mandi Glad
CFO	Chief Financial Officer. Keaton Energy's CFO is Jacques Rossouw
CHPP	Coal handling and processing plant
COP	Code of Practice
CP	Competent Person
the Companies Act	South African Companies Act, 71 of 2008, as amended
CSA	Coal supply agreement
CSI	Corporate social investment
the current year	The financial year ended 31 March 2016
CV	Calorific value
DEFRA	UK Department for Environment, Food and Rural Affairs
DMR	Department of Mineral Resources
DMS	Dense Medium Separation
DOTS	Directly observed treatment, short course
DWS	Department of Water and Sanitation
EBITDA	Earnings before interest, taxation, depreciation and amortisation
EE Act	Employment Equity Act
EMP	Environmental Management Plan
EPS	Earnings per share
ERP	Enterprise resource planning
ESG	Environmental, social, governance
EXCO	Executive Committee of Keaton Energy
FC	Fixed carbon
FRA	Forward rate agreement
FY	Financial year

Definitions and abbreviations continued

GJ	Gigajoule
GHGs	Greenhouse gases
GRI	Global Reporting Initiative
GTIS	Gross tonnes *in situ*
ha	Hectare
HDSA/s	Historically disadvantaged South Africans
HEPS	Headline earnings per share
HIRA/s	Hazard Identification and Risk Assessment
HIV/Aids	Human immunodeficiency virus/acquired immune deficiency syndrome
IAR	Integrated Annual Report
IBC	Inside Back Cover
IDP	Integrated Development Plan
IWBSM	Integrated water balance simulation model
IM	Inherent moisture
IT	Information technology
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
ISO	International Organisation for Standardisation
IWUL	Integrated Water Use Licence
JIBAR	Johannesburg Interbank Agreed Rate
JSE	JSE Limited incorporating the Johannesburg Securities Exchange, the main bourse in South Africa
JV	Joint venture
kWh	Kilowatt-hour
King III Report or King III	King Report on Corporate Governance for South Africa, 2009
the group or Keaton Energy	Keaton Energy Holdings Limited, listed on the JSE in the "coal mining" sector
km	Kilometre
KZN	KwaZulu-Natal
LBC	Leeuw Braakfontein Colliery Proprietary Limited
LED	Local Economic Development
LME	Leeuw Mining and Exploration Proprietary Limited
LOM	Life of mine
LTIFR	Lost-time injury frequency rate, calculated as number of lost time injuries per 200 000 man hours
LTIP	Long-term incentive plan
m	Metres

MHSA	Mine Health and Safety Act, 29 of 1996
mm	Millimetres
mm^3	Cubic millimetres
MOA	Memorandum of Agreement
MPRDA	Mineral and Petroleum Resources and Development Act
MRA	Mining Right Application
MQA	Mining Qualifications Authority
Mt	Million metric tonnes
MTIS	Million tonnes *in situ*
Mtpa	Million tonnes per annum
NEMA	National Environmental Management Act
NPA	National Prosecuting Authority
NWA	National Water Act
NUM	National Union of Mineworkers
OECD	Organisation for Economic Co-operation and Development
OHSA	Occupational Health and Safety Act
PCD	Pollution Control Dam(s)
PPE	Personal Protection Equipment
PPP	Public Private Partnerships
the previous year	The year ended 31 March 2015
PTO	Planned task observations
QA	Quality Assurance
QC	Quality Control
ROM	Run of mine
SABS	South African Bureau of Standards
SACMA	South African Colliery Managers' Association
SAICA	South African Institute of Chartered Accountants
SAIMM	South African Institute of Mining and Metallurgy
SAMREC	South African Mineral Resource Committee
SANS	South African National Standard
SAP	Systems applications and products
SARS	South African Revenue Service
SATAWU	South African Transport and Allied Workers' Union
SENS	Stock Exchange News Service

Definitions and abbreviations continued

SHE	Safety, health and environment
SLA	Service Level Agreement
SLP	Social labour plan, required in terms of the Mineral and Petroleum Resources Act
SMME	Small, micro and medium enterprises
SOP	Standard operating procedure
t	Metric tonne
tCO_2e	Tonnes of Carbon Dioxide equivalent
TB	Pulmonary tuberculosis
tpa	Metric tonnes per annum
tph	Metric tonnes per hour
TP	Total phosphorus
TS	Total sulphur
TTIS	Total tonnes *in situ*
the year or the year under review	The year ended 31 March 2016
UJ	University of Johannesburg
UNISA	University of South Africa
VAT	Value added tax
VM	Volatile matter
WITS	University of Witwatersrand

Responsibility statement and disclaimer

Responsibility statement

The Audit Committee acknowledges its responsibility on behalf of the Board to ensure the integrity of this Integrated Annual Report. The Committee has applied its mind to the report and believes that it appropriately and sufficiently addresses all key strategic issues, and fairly presents the integrated performance of Keaton Energy and its subsidiaries for the year within the scope and boundary above. The Audit Committee recommended this Integrated Annual Report to the Board for approval.

Forward looking statements

This Integrated Annual Report contains forward looking statements that, unless otherwise indicated, reflect the group's expectations as at year-end. Actual results may differ materially from the group's expectations. The group cannot guarantee that any forward looking statement will materialise and, accordingly, readers are cautioned not to place undue reliance on these. The group disclaims any intention and assumes no obligation to revise any forward looking statement even if new information becomes available, other than as required by the JSE Listings Requirements or any other applicable regulations.

Mandi Glad
CEO

Jacques Rossouw
CFO

Lizwi Mtumtum
Chair Audit Committee

Board and Committee meeting attendance

Directors	Board meetings	Audit Committee meetings	Nomination Committee meetings	Remuneration Committee meetings	Risk Committee	SHE Committee	Social and Ethics Committee*
Name							
David Salter	7(7)	4(4) invitee	4(4)	4(4)	4(4)	3(3)	4(4)
Mandi Glad	7(7)	4(4) invitee	–	3(4) invitee	3(4)	2(3)	3(4)
Jacques Rossouw	7(7)	4(4) invitee	–	4(4) invitee	4(4)	–	4(4)
Lizwi Mtumtum	7(7)	4(4)	3(4)	4(4)	4(4)	–	4(4)
Paul Sadler	7(7)	4(4)	4(4)	–	4(4)	–	1(1)
Gerard Kemp	7(7)	4(4)	3(4)	3(4)	3(4)	3(3)	1(1) invitee
Meindert Witteveen	7(7)	–	–	–	2(4)	–	1(1)
Jeroen Schurink**	1(1)	–	–	–	0(1)	–	1(1)
Antoinette Sedibe	7(7)	–	–	–	4(4)	–	4(4)
Phoevos Pouroulis	7(7)	–	–	–	2(4)	–	0(1)
Gia Mai***	4(6)	–	–	–	2(3)	–	–

* *The composition of the Social and Ethics Committee was changed in June 2015 with only five members remaining on the committee.*
** *Resigned June 2015.*
*** *Appointed July 2015.*

King III application

	Chapter 2: Boards and directors		
	Principle	**Status**	**Comments**
2.1	The Board should act as the focal point for and custodian of corporate governance.	Compliant	The Board is the focal point and custodian of corporate governance at Keaton Energy. In accordance with the well-defined TOR, the Board is committed to the highest standards of corporate governance. The TOR is reviewed annually and was completely reviewed and approved by the Board during the year. The Board meets at least four times a year.
2.2	The Board should appreciate that strategy, risk, performance and sustainability are inseparable.	Compliant	The Board is responsible for aligning the strategic objectives and vision with performance and sustainability considerations. The Board informs and approves strategy and strives to ensure the group's long-term sustainability. A formalised risk management process takes into account the full range of risks including strategic and operational risks, its impact on performance and sustainability and appropriate responses to minimise the potential impact on performance and sustainability.
2.3	The Board should provide effective leadership based on an ethical foundation.	Compliant	The Board provides effective leadership and is committed to the highest levels of corporate governance as a key driver of sustainability. This is driven through the Code of Ethics and monitored by the Audit and the Social and Ethics Committees.
2.4	The Board should ensure that the company is and is seen to be a responsible corporate citizen.	Compliant	Keaton Energy's Social and Ethics Committee reflects and effects the company's commitment to responsible corporate citizenship. In addition Keaton Energy has also adopted the principles of the Global Reporting Initiative (GRI).
2.5	The Board should ensure that the company's ethics are managed effectively.	Compliant	The Board takes responsibility for building and sustaining an ethical corporate culture within the group. The Board acts in accordance with its Code of Ethics which promotes and enforces ethical standards and ensures that the group's ethical standards are integrated into all the group's strategies and operations. Both the Audit and Social and Ethics Committees assist the Board in ensuring ethics are effectively managed.
2.6	The Board should ensure that the company has an effective and independent Audit Committee.	Compliant	Shareholders elect the members of the Audit Committee annually, all of whom are Independent Non-Executive Directors. It is chaired by Lead Independent Director Lizwi Mtumtum and consists of two additional members. The Board is satisfied with their levels of independence. The Committee is governed by the TOR, which is approved by the Board.
2.7	The Board should be responsible for the governance of risk.	Compliant	The Board has approved and implemented a policy and Risk Management Plan for a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, as well as the related internal controls, compliance and governance processes within the group. Both the Audit and Risk Committees assist the Board with the evaluation and management of risk.
2.8	The Board should be responsible for IT governance.	Compliant	The Board ensures that IT governance is an integral part of corporate governance and that it is monitored and assessed on a regular basis. The Audit Committee assists the Board with IT governance.
2.9	The Board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	Compliant	The Board ensures that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards. Any areas of partial or non-compliance identified are tracked through a system that ensures it is addressed.
2.10	The Board should ensure that there is an effective risk-based internal audit.	Compliant	The internal audit function is responsible for assisting the Board and management by independently reviewing the adequacy and effectiveness of the company's systems of internal control. The company's internal audit function is outsourced to PwC who in turn reports back to the Audit Committee.
2.11	The Board should appreciate that stakeholders' perceptions affect the company's reputation.	Compliant	The Board recognises the importance of developing and nurturing positive and stable relationships with key stakeholders as a key driver of business success. The group applies various policies and methodologies to govern engagement with its stakeholders. Stakeholder engagement is a responsibility of the Social and Ethics Committee.
2.12	The Board should ensure the integrity of the company's Integrated Annual Report.	Compliant	The Audit Committee ensures that the Integrated Annual Report endeavours to provide a true view of the group's commitment to ensuring that financial, social and environmental sustainability permeates the entire business.
2.13	The Board should report on the effectiveness of the company's system of internal controls.	Compliant	The Audit Committee continuously ensures the soundness of the company's system of internal controls through independent review by internal and external audit.
2.14	The Board and its directors should act in the best interests of the company.	Compliant	The Board acknowledges its role as a trustee on behalf of the shareholders. Directors are permitted to take independent advice in connection with their duties at company cost. Real or perceived conflicts of interest are disclosed to the Board and managed appropriately. Members of the Board are governed by a formal policy, in respect of dealing in Keaton Energy shares. The Board has unrestricted access to all company information, records, documents and property subject to following a Board-approved process.
2.15	The Board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act.	Compliant	The Board reviews the financial performance of the company quarterly to assess its financial position. The solvency and liquidity tests are performed quarterly in accordance with the Companies Act, 71 of 2008, to support the going-concern statements. Should the company ever become financially distressed, the Board will consider appropriate mechanisms to address this matter.
2.16	The Board should elect a Chairman of the Board who is an Independent Non-Executive Director. The CEO of the company should not also fulfil the role of Chairman of the Board.	Compliant	The Chairman, David Salter, is a Non-Executive Chairman and the roles of CEO and Chairman are clearly defined. The Chairman is elected by the Board members and his ability to add value, and his performance is assessed every year. The Chairman's role and responsibility is formalised. As the Chairman is not independent, Lizwi Mtumtum has been appointed as Lead Independent Director. The Chairman resigned as an executive in September 2013 and will be deemed independent from 31 March 2017.

King III application continued

	Chapter 2: Boards and directors *(continued)*		
	Principle	**Status**	**Comments**
2.17	The Board should appoint the CEO and establish a framework for `the delegation of authority.	Compliant	The Board, through its Nomination Committee, has appointed Mandi Glad as CEO and a delegation of authority framework is reviewed regularly. The role and function of the CEO is formalised and performance measures are in place to appraise her performance. The CEO is not a member of the Remuneration, Nomination or Audit Committees.
2.18	The Board should comprise a balance of power, with a majority of Non-Executive Directors. The majority of Non-Executive Directors should be independent.	Partially compliant	The Board strives to achieve a balance of power with the majority of directors being Non-Executive Directors. At present the Board does not consist of a majority of Independent Non-Executive Directors due to the number of shareholder appointed directors. The Board is aware of the risks associated with this practice and takes all measures available to it to mitigate the risks and operate in an independent manner for the benefit of all shareholders. There is a clear division of responsibilities between the executives' responsibility for the running of the company's business and the leadership of the Board, such that no individual has unfettered powers of decision-making.
2.19	Directors should be appointed through a formal process.	Compliant	Procedures for appointments to the Board are formal and transparent and are a matter for the Board as a whole, assisted by the Nomination Committee. The Chairman of the Board chairs the Nomination Committee. Details of the directors' appointment procedure and composition of Board are provided in the Integrated Annual Report. The Board makes full disclosure regarding individual directors to enable shareholders to make their own assessment of directors. The number of meetings held each year by the Board and each Board Committee and the details of attendance of each director (as applicable) at such meetings are disclosed.
2.20	The induction of and ongoing training and development of directors should be conducted through formal processes.	Compliant	New appointees to the Board are familiarised with the group through an informal induction programme which includes an induction folder prepared by the Company Secretary and training by the sponsor. Ongoing director development is encouraged to enhance the effectiveness of the Board.
2.21	The Board should be assisted by a competent, suitably qualified and experienced Company Secretary.	Compliant	The Nomination Committee reviews that the appointment of Mrs Anelia Schutte-Bouwer as the Company Secretary is in compliance with the Companies Act, 71 of 2008, the JSE Listings Requirements and the recommendations of King III. The Board has on recommendation from the Nomination Committee considered her qualifications, experience and competency and deems her to be suitably qualified and experienced to act as the group's Company Secretary. The Board is satisfied that Mrs Anelia Schutte-Bouwer maintains an arm's length relationship with the Board. The role and function of the Company Secretary is formalised.
2.22	The evaluation of the Board, its Committees and the individual directors should be performed every year.	Compliant	Annual evaluation of the Board, Committees and individual directors' performance are performed.
2.23	The Board should delegate certain functions to well-structured Committees but without abdicating its own responsibilities.	Compliant	The Board delegates certain functions without abdicating its own responsibilities to the following Committees: • Audit Committee • Risk Committee • SHE Committee • Remuneration Committee • Nomination Committee • Social and Ethics Committee All the Committees' TOR outline composition, objectives, purpose and activities, as well as delegation of authorities, including the extent of the Committee's power to make decisions, tenure and reporting mechanism to the Board. The size and structure of the Social and Ethics Committee was reviewed in June 2015. Membership of the Committee was subsequently reduced from 10 to five, as this was deemed sufficient to carry out the Committee's duties. See page 84 for further detail.
2.24	A governance framework should be agreed between the group and its subsidiary boards.	Compliant	The Board has approved a delegation of authority framework that includes subsidiary companies. In addition, all approved policies and processes apply to all companies within the group.
2.25	Companies should remunerate directors and executives fairly and responsibly.	Compliant	The group's Remuneration Committee determines the Remuneration Policy on executive and senior remuneration in line with the group's remuneration philosophy and strategy. A detailed Remuneration Committee Report is contained in the Integrated Annual Report on pages 86 to 89.
2.26	Companies should disclose the remuneration of each individual director and certain senior executives.	Compliant	The remuneration of directors and prescribed officers is disclosed in the Integrated Annual Report in note 36 to the financial statements.
2.27	Shareholders should approve the company's Remuneration Policy.	Compliant	Shareholders consider and endorse, by way of a non-binding advisory vote, the company's Remuneration Policy at the Annual General Meeting.

The full King III application is available on our website, www.keatonenergy.co.za.

Administration and contact details

Keaton Energy Holdings Limited Registered address
Ground Floor
Eland House
The Braes
3 Eaton Avenue
Bryanston 2191

Postnet Suite 464
Private Bag X51
Bryanston 2021

Tel: +27 (0) 11 317 1700
Fax: +27 (0) 11 463 4759
Website: www.keatonenergy.co.za

Investor relations
Samantha Brown
Tel: +27 (0) 11 317 1700
Fax: +27 (0) 11 463 4759
Email: investors@keatonenergy.co.za

Company Secretary
Anelia Schutte-Bouwer
Tel: +27 (0) 11 317 1700
Fax: +27 (0) 11 463 4759
Email: anelia@keatonenergy.co.za

Transfer secretaries
Computershare Investor Services Proprietary Limited
Registration number: 2004/003647/07
70 Marshall Street
Johannesburg 2001

PO Box 61051
Marshalltown 2107

Investment bank, corporate adviser and sponsor
Investec Bank Limited
100 Grayston Drive
Sandown
Sandton 2196

PO Box 785700
Sandton 2146

Reporting accountants and auditors
KPMG Incorporated
Registered Accountants and Auditors
Chartered Accountants (SA)
KPMG Hillside
Corner of Hillside Street and Klarinet Road
Lynnwood
Pretoria 0081

PO Box 11265
Hatfield 0028

KeatonEnergy»
Keaton Energy Holdings Limited

www.keatonenergy.co.za

KeatonEnergy

Keaton Energy Holdings Limited

www.keatonenergy.co.za