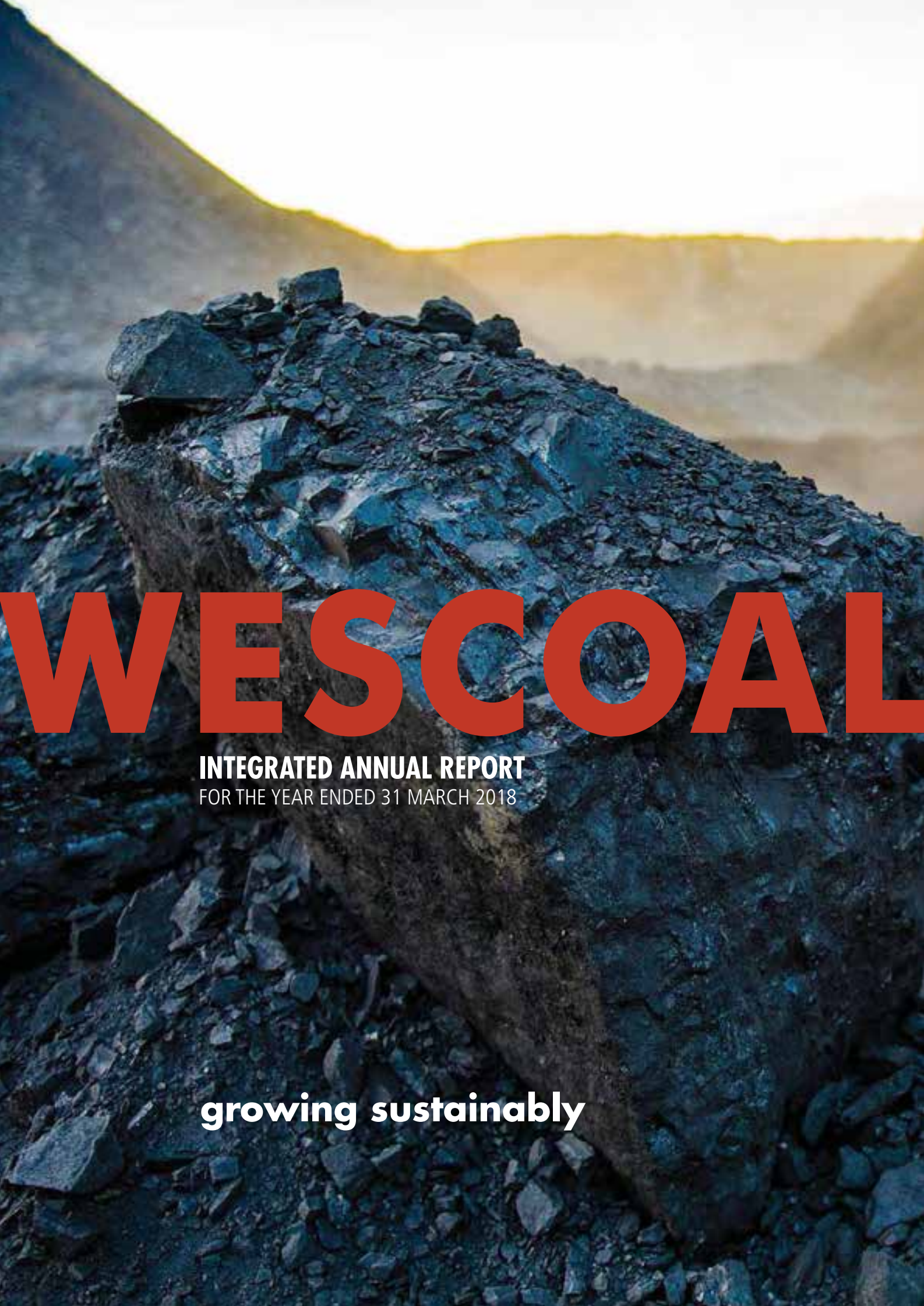
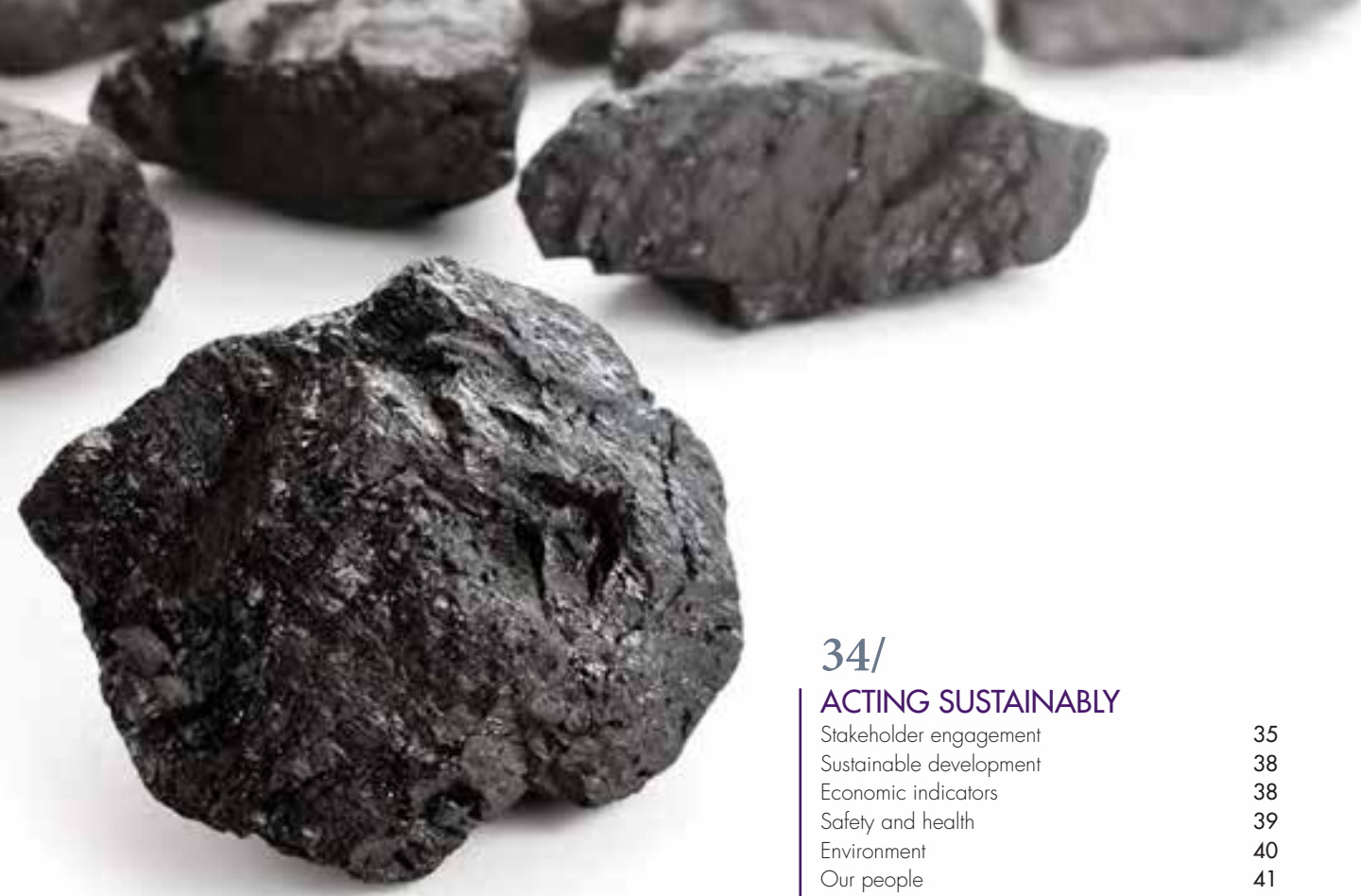


# WESCOAL

## INTEGRATED ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2018

**growing sustainably**



# CONTENTS

# SCOPE OF REPORT

## SCOPE AND BOUNDARY

The integrated annual report for FY18 presents to stakeholders comprehensive information enabling them to assess the group's economic, social and environmental performance. The report covers the group's activities and operations from 1 April 2017 to 31 March 2018. Comparative historical information is presented where relevant as an insight into future plans. This report outlines Wescoal's performance in the year under review in terms of the company's strategy and business model, the impact of the external environment in which it operates, future plans and how they will be achieved.

The group reports in two main segments, Mining and Trading, as outlined in the group structure on page 10.

## MATERIAL CHANGES

Material changes to the size, structure and ownership of the group during the year are outlined below:

- Acquisition of Keaton Energy effective June 2017

## REPORTING APPROACH

The report is aimed primarily at shareholders and investors but also addresses the interests and concerns of other stakeholders wherever possible. The report has been prepared in compliance with the South African Companies Act, 71 of 2008 ("Companies Act"), the Listings Requirements of the JSE, the South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves ("SAMREC Code") and in line with the recommendations of the King Code and Report on Governance Principles for South Africa 2016 ("King IV"). 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 Council.

The content included in this integrated annual report endeavours to identify and explain the material issues faced by the group. These have been determined by assessing issues critical to achieving strategic objectives, identified risks and feedback from stakeholders. The following have been identified as material to the group:

- Safety
- Mining responsibly with respect to the environment and society
- Employees
- Product quality and delivery
- Life of mine(s)

We endeavour to discuss these material issues throughout this integrated annual report and particularly in *Sustainability* pages 38 to 43, *Safety and health* pages 39 and 40, *Environment* pages 40 and 41 and *Our people* pages 41 and 42.

The group's key stakeholders include: investors, shareholders, mining analysts and media; customers; employees; regulatory authorities and bodies; business partners; the community; and government.

## FORWARD-LOOKING STATEMENTS

The report contains forward-looking statements that, unless otherwise indicated, reflect the group's expectations at 31 March 2018. Forward-looking statements, including Wescoal's future business prospects, revenues and income, in this report are necessarily estimates in the best judgement of the senior management and directors of Wescoal and may not reflect the actual outcome of performance or achievements of the group. The group undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.

## CONTACT

Any queries regarding this integrated annual report or its contents should be directed to:

Izak van der Walt
Chief financial officer

Email: izak@wescoal.com
Tel: +27 (0)11 049 8611 | Fax: +27 (0)11 570 5848
Head office: First Floor, Building 10, Woodmead Business Park
142 Western Service Road, Woodmead, Sandton 2191
South Africa

## BOARD RESPONSIBILITY STATEMENT

The Wescoal board of directors confirms its responsibility for the integrity of the integrated annual report, the content of which has been collectively assessed by the directors who believe that all material issues have been addressed and are fairly presented.

| Robinson Ramaite | Waheed Sulaiman | Izak van der Walt |
|---|---|---|
| *Non-executive chairman* | *Chief executive officer* | *Chief financial officer* |

## ASSURANCE

We undertake the following assurance to ensure reporting integrity:

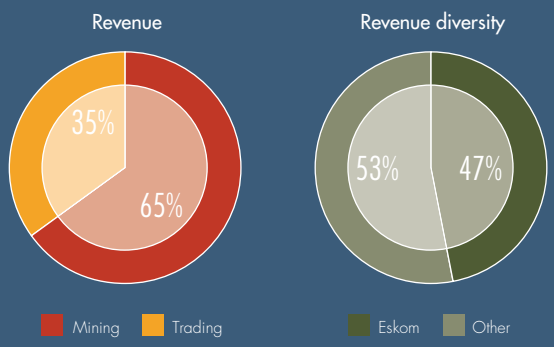
| Business process | Nature of assurance | Assurance provider |
|---|---|---|
| Annual financial statements | External audit | PricewaterhouseCoopers Inc. |
| B-BBEE | BEE scorecard review | TFS Holdings |
| Internal audit | Independent outsourced | Barish |
| HSEC audits | Compliance reviews | DMR |
| Resource and reserve independent competent person | Miptech | Assured |
| JSE requirements | Compliance reviews | JSE and auditors |
| Lender due diligence | Legal and compliance reviews | Bankers' appointed independent consultants and lawyers |
| Insurance due diligence | Independent risk reviews | Brokers and Insurers |
| Environmental liability and rehabilitation | Independent reviews | Jaco-K Consulting and SLR |
| Quality control | Laboratory tests | Bureau Veritas |

# WHO WE ARE AND WHAT WE DO

Wescoal is a coal-focused mining company incorporating mining, processing, selling and distribution of coal and coal-related products through its two divisions – **Mining** and **Trading**.

The operating assets of the **Mining division** consist of four mines (Elandspruit, Vanggatfontein, Intibane and Khanyisa) and four processing plants located in the Mpumalanga province. Potential growth projects within the Mining division include Moabsvelden adjacent to Vanggatfontein.

The **Trading division** is a strategic distribution business that specialises in the supply of coal by road and rail and is made up of three depots countrywide and a logistics network covering South Africa.




## WESCOAL HOLDINGS LIMITED

100%

**Wescoal Mining**

- Elandspruit
- Intibane
- Khanyisa Complex (including Khanyisa Triangle with 35% shareholding)
- Wescoal Processing Plant

100%

**Keaton Group**

- Vanggatfontein
- Moabsvelden project (74%)
- Leeuw Braakfontein project
- Sterkfontein project

100%

**Wescoal Trading**

- Pretoria
- Bellville
- Benoni

## OUR STRATEGY

The key strategic thrust is to be a leading coal miner with a sustainable resource base and a coal trading operation.

# WESCOAL IN A SNAPSHOT

In 2017, Wescoal acquired Keaton Energy's Vanggatfontein operating colliery and various other assets. The enlarged business now has coal resources well in excess of 300 million tonnes, four operating mines, four processing plants and significant interests in coal supply chain infrastructure.

## FAST FACTS

**Revenue contribution:** Mining division **65%**, Trading division **35%**

ROM production **6.8 million tonnes**

Coal resources **300 million tonnes**

Coal sales **6.5 million tonnes**

Life of mine **more than 10 years**

**166** employees and **1 845** contractors

**BEE ownership** over **51%**

## KEY RISKS

- Future of export
- Revenue diversity
- Mining Charter and legislative risk
- Community impact

## INVESTMENT CASE

- Leadership team focused on safe, sustainable operational delivery as an enabler for growth
- Responsible business behaviour which impacts positively on all stakeholders and increases long-term shareholder value
- BEE ownership of +51%
- Long-term coal supply contracts in local and export markets
- Multi-faceted business with diverse revenue streams
- Strongly positioned and flexible to take advantage of opportunities to supply into changing domestic demand conditions
- Strong focus on cost and cash management and capital allocation
- Key player in consolidation of local coal markets
- Long-term debt facility provides flexibility to take advantage of growth opportunities and increases group liquidity and balance sheet position
- Deep technical expertise embedded in the leadership team

# FY18 HIGHLIGHTS

- Acquired Keaton Energy Holdings and realised savings of +R40 million per annum
- Mining production increased 100% to 6.8mt (FY17: 3.4mt)
- Operational EBITDA increased 162% to R538 million (FY17: R205 million)
- Net profits of R202 million and a three-year compound growth rate of 91% pa

## FINANCIAL HIGHLIGHTS

- Revenue up by **67%** to **R3 527 million** (FY17: R2 118 million)
- Gross profit up by **54%** to **R565 million** (FY17: R367 million)
- Cash flow generated from operations **R358.8 million**
- Cash flow generation of **86 cents** per share (51% cash flow yield)
- Total comprehensive income up by **569%** to **R202 million** (FY17: R30.2 million)
- EPS up by **315%** to **48.1 cents** per share
- HEPS up by **311%** to **46.4 cents** per share
- Final FY18 dividend of **R35 million** (FY17: R12 million)
- **Secured** long-term debt funding
- Maintained BEE ownership at **51%+**

**166** permanent employees / **1 845** part time employees

**6.8mt** coal mined

Resources **300mt** (FY17: 27mt) / Reserves **95mt** (FY17: 26mt)

## OPERATIONAL HIGHLIGHTS

- Mining volumes doubled for the second consecutive year, with production of **6.8mt ROM**
- Acquisition of Keaton Energy increased coal resources to **300 million tonnes** (FY17: 27mt) and annualised ROM production rate up by 3.6 million tonnes to **7.4mtpa** with coal washing capacity increasing by 3.6 million tonnes to **5mtpa**
- Keaton Energy fully integrated and synergy target of R20 million exceeded with **R30 million savings** in first nine months
- **Zero** fatalities
- **Operationalised Khanyisa** joint venture complex
- **R18 million** in CSI spend
- R18 million invested in **upgrade of D20 road** near Elandspruit
- Multiple coal supply contracts concluded: Eskom **13 million tonnes** of coal over a four-year period
- Elandspruit **expansion** with start-up of underground section

# CHAIRMAN'S REPORT

**Successfully** strengthened the organisation

Wescoal has a new status as a **mid-sized mining and trading enterprise**

Committed to maintaining the **highest standards** of safety and health

# 2018 heralds in a decade for me as chairman of Wescoal. In this time I have watched and actively nurtured the growth of the company as mapped by our mid-term vision which is today successfully delivered with the transformation of the group, increased production and the successful acquisition of Keaton Energy.

**Robinson Ramaite** *Chairman*

We have now embarked upon a new journey spearheaded by a fresh outlook from an expanded business platform – the basis for our long-term strategic outlook.

The past four years in particular have presented exciting challenges on all fronts from global stresses in commodities and local political uncertainty to the positioning of the new management team. Despite the challenges we have successfully strengthened the organisation while upholding the principles of sustainability, good corporate governance and the continuous development of our social responsibility as crucial elements of our commitment to all stakeholders.

The executive business strategy, guided by the main board, has reduced costs and improved profitability through the introduction of efficiencies across all operations. The team has seized the opportunity within the improving economic climate to once again present shareholders with a strong financial performance.

Now no longer a junior coal miner but from its new status as a mid-sized mining and resource trading enterprise, the business continues to seek ways to increase its presence as a key component of our country's energy supply chain while looking at diversification and the export markets with increased focus on managing risk. In the M&A arena the successful Keaton transaction is being rolled out under a consolidation strategy opening the way for further acquisition considerations.

The group is also committed to maintaining the highest standards of safety and health in the workplace as well as reducing the environmental impact of our footprint in all of the areas where we operate. Safety, health and the environment are fundamental pillars upon which we build the future. On both counts, I proudly point to our record over the past few years (refer to pages 39 to 41).

However, to my mind, the company's most remarkable achievements lie in its transformation and socio-economic development initiatives that have taken place in the short period of the past three years. We set out to play an exemplary role as a leader in the space that we occupy between junior miners and the majors and have largely achieved ratings well beyond regulatory guidelines and certainly more in keeping with the demographics of the country – from our board down through the group to all our stakeholders. Wescoal has also focused on community development and education through generous bursary disbursements.

We want to play a more meaningful role in the transformation conversation in the country as the voice of small mining companies. In this regard we are looking at/have joined a number of industry organisations such as the Fossil Fuel Foundation.

In the near future the company intends introducing a broad-based ownership scheme that will complement its social and labour plans and local economic development focus which include a housing development project for communities affected by our mining activities.

Wescoal's impressive achievements are reflected in the continuous development of our integrated reporting and summarised in the Wescoal integrated annual report. This invaluable tool assesses the performance of the group's sustainability strategy and at the same time provides increasingly higher degrees of transparency for all stakeholders while working hand-in-hand with the group's open door policy and sustained communications with all stakeholders as key characteristics of the new DNA.

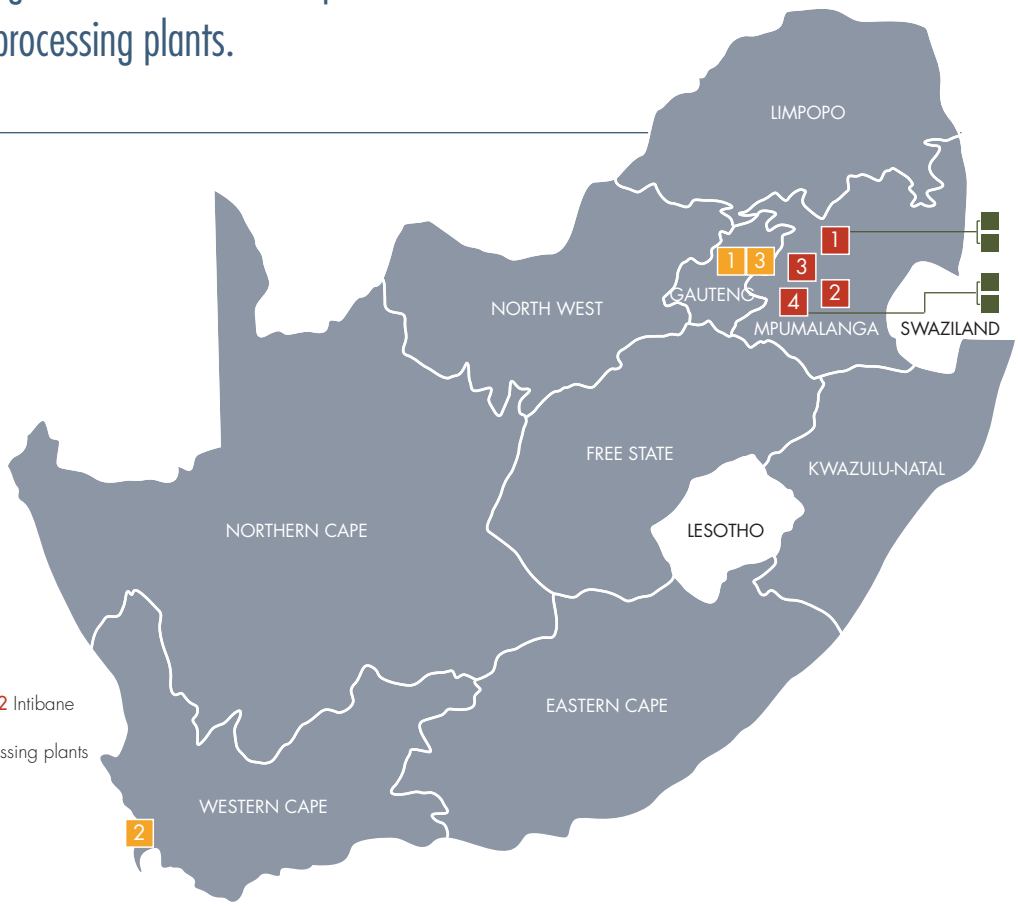
It is therefore with a deep sense of achievement that I look forward to progress in the next decade and express my heartfelt thanks to those at the 'coal face' – the executive and management team, the non-executive directors of the board and all Wescoal employees, shareholders, suppliers and the media.

Robinson Ramaite
*Chairman*

30 July 2018

# OUR OPERATIONS

Part of Wescoal's strategy is to consolidate the junior coal mining sector. Steps have been taken towards this through the acquisition of Keaton Energy Holdings. Wescoal's current operation consists of four mines and four processing plants.




Wescoal Trading areas of activity

Wescoal Mining
1 Elandspruit: two processing plants 2 Intibane
3 Khanyisa Complex
4 Vanggatfontein Colliery: two processing plants

Wescoal Trading depots
1 Pretoria 2 Bellville 3 Benoni

Processing Plants

## MINING

### Elandspruit Colliery

| Employees: 22 | Contractors: 402 | Life of mine: 7 years |
|---|---|---|

**Description and location**

- Located 8 kilometres west of Middelburg in Mpumalanga
- Comprises portions of the Elandspruit farm

**Operational logistics**

| | |
|---|---|
| Produced: | 3.1 million tonnes |
| Capacity: | 3.1 million tonnes per annum |
| Resources: | 19.1 million tonnes |
| Reserves: | 18.3 million tonnes |
| Average grade: | 23.1CV |

### Intibane

| Employees: 15 | Contractors: 239 | Life of mine: 0.5 years |
|---|---|---|

**Description and location**

- Located 14 kilometres west of Ogies in Mpumalanga
- Comprises a portion of the farm Vlakvarkfontein 213 IR

**Operational logistics**

| | |
|---|---|
| Produced: | 864 thousand tonnes |
| Capacity: | 1.0 million tonnes per annum |
| Resources: | 1.3 million tonnes |
| Reserves: | 1.1 million tonnes |
| Average grade: | 19.3CV |

## Khanyisa Complex Colliery

| Employees: 25 | Contractors: 273 | Life of mine: 4 years |
|---|---|---|

**Description and location**

- Khanyisa Catwalk and Triangle
- Located 10 kilometres west of Ogies in Mpumalanga
- Comprises a portion of the farm Heuvelfontein 215 IR

**Operational logistics**

| | |
|---|---|
| Produced: | 468 thousand tonnes (WSL share) |
| Capacity: | 523 thousand tonnes per annum (WSL share) |
| Resources: | 4.8 million tonnes (WSL share) |
| Reserves: | 4.3 million tonnes (WSL share) |
| Average grade: | 20.1CV |

## Vanggatfontein Colliery

| Employees: 18 | Contractors: 537 | Life of mine: 9 years |
|---|---|---|

**Description and location**

- Located 16 kilometres south-east of Delmas in Mpumalanga
- On the farm Vanggatfontein

**Operational logistics**

| | |
|---|---|
| Produced: | 2.4 million tonnes (WSL 9 months) |
| Capacity: | 4.0 million tonnes per annum |
| Acquired: | June 2017 |
| Resources: | 85 million tonnes |
| Reserves: | 35.5 million tonnes |
| Average grade: | 21.7CV |

# PROCESSING

## Wescoal Processing Plants

| Employees: 13 | Contractors: 366 |
|---|---|

**Description and location**

- Located 19 kilometres south of Middelburg in Mpumalanga

**Operational logistics**

| | |
|---|---|
| Produced: | 2.2 million tonnes |
| Capacity: | 2.4 million tonnes |
| Acquired: | 2015 |

## Vanggatfontein Processing Plants

| Employees: 1 | Contractors: 100 |
|---|---|

**Description and location**

- On Vanggatfontein Colliery
- Located 16 kilometres south-east of Delmas in Mpumalanga

**Operational logistics**

| | |
|---|---|
| Produced: | 1.8 million tonnes (WSL 9 months) |
| Capacity: | 2.6 million tonnes per annum |
| Acquired: | June 2017 |

# TRADING

| Employees: 53 | Contractors: 4 |
|---|---|

**Description and location**

- Depots in Bellville, Pretoria and Benoni

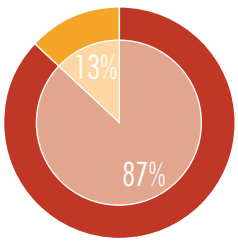
**Operational logistics**

**Total sales:** 1 million tonnes

The Trading division continued to build on its strategy of reducing its fixed cost base and reducing its operational footprint

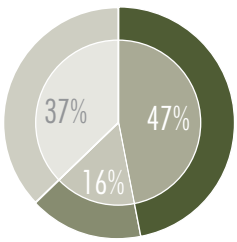
Significant focus was placed on upskilling all employees and materially improving its BEE scorecard

Group mineral reserves




Proven Probable

Customers




Eskom Export Domestic

# THE WESCOAL GROWTH STORY

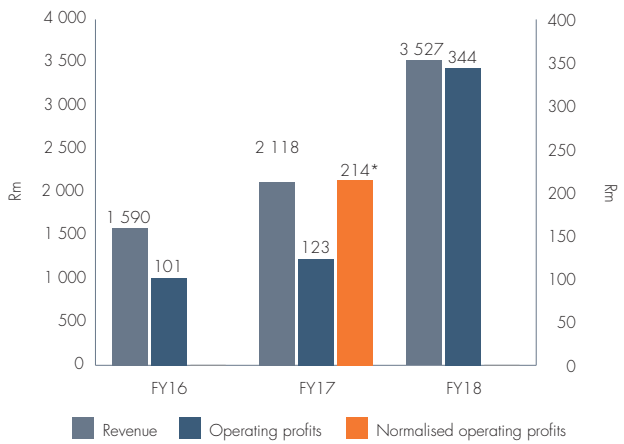
Wescoal aims to create value for all stakeholders and shareholders in particular. From our origins as a domestic coal trader selling less than half a million tonnes per annum we have grown into a group with four mines and four processing plants with coal production for 2018 of 6.8 million tonnes and coal sales of 6.5mtpa. We are a material coal supplier to Eskom supplying over 3.5 million tonnes of coal to Eskom and contributing to generating electricity to help drive the South African economy.

Over the past three years Wescoal's net profit after tax increased six-fold to R202 million, EBITDA and ROM production volume increased 71% and 65%, respectively per annum and we see this trend continuing.

Shareholder value added over the past three years includes R85 million returned to shareholders through our progressive dividend and share buy-back programmes, reflecting a compounded annual growth rate of 129%.

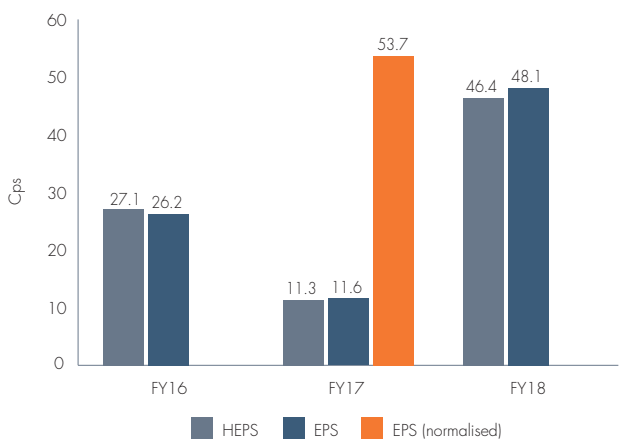
## However, the company's most remarkable achievements lie in its transformation and socio-economic development initiatives that have taken place in the short period of three years.

Revenue and operating profit

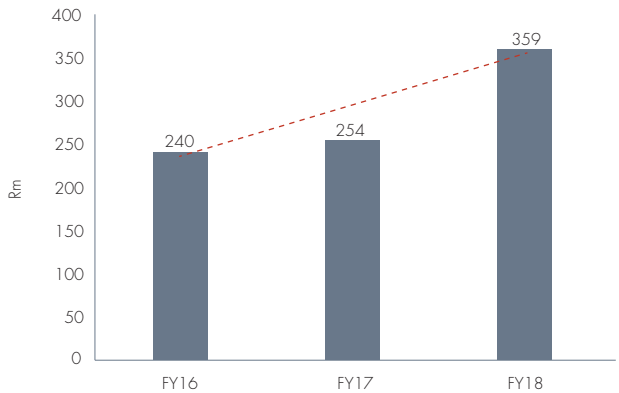



*Sustained three-year compound operating profit growth rate of 96%*

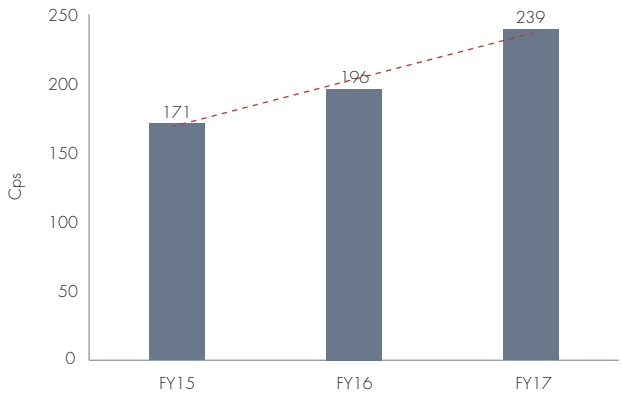
Headline earnings per share and earnings per share



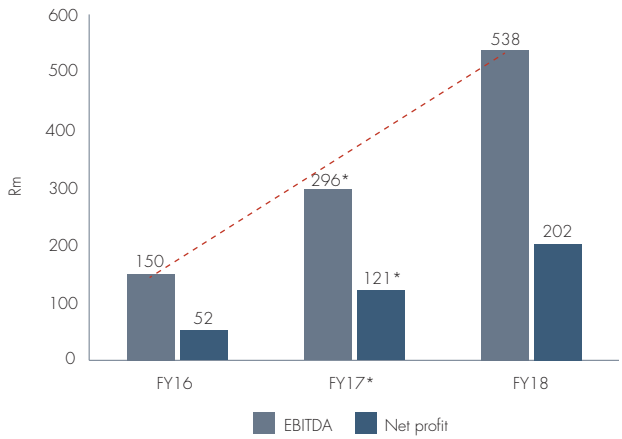
Cash flow generated from operations



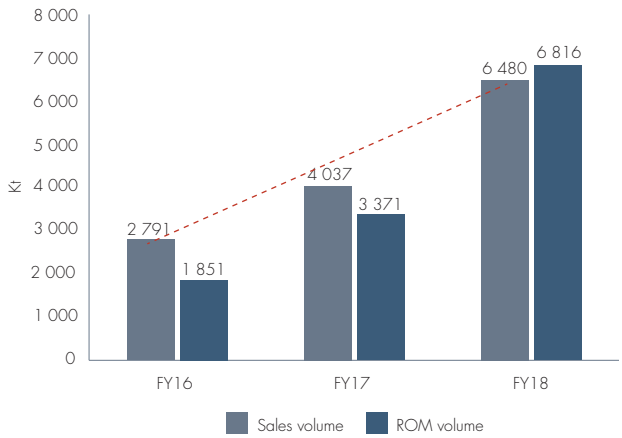

Net asset value per share




NPAT/EBITDA year on year

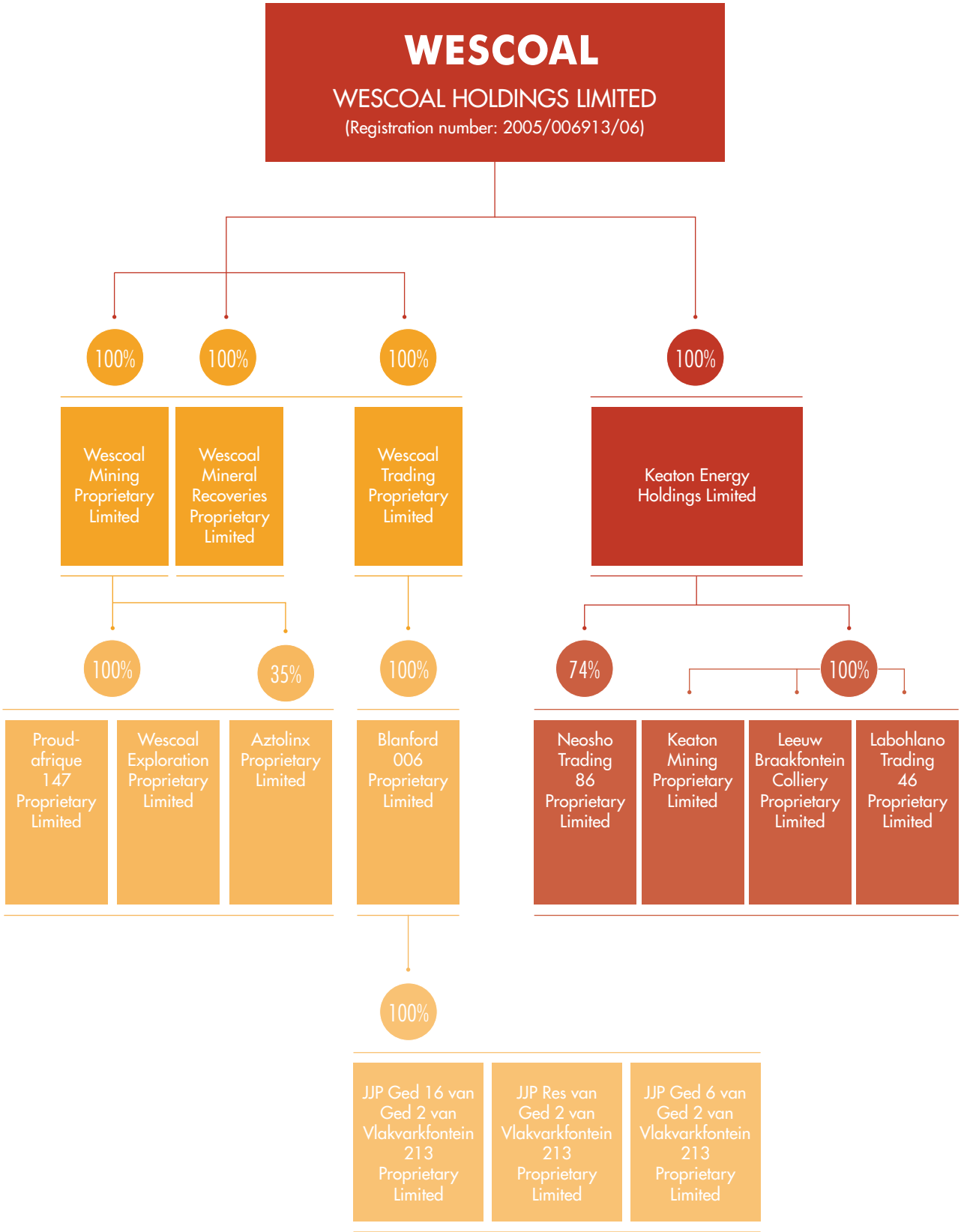


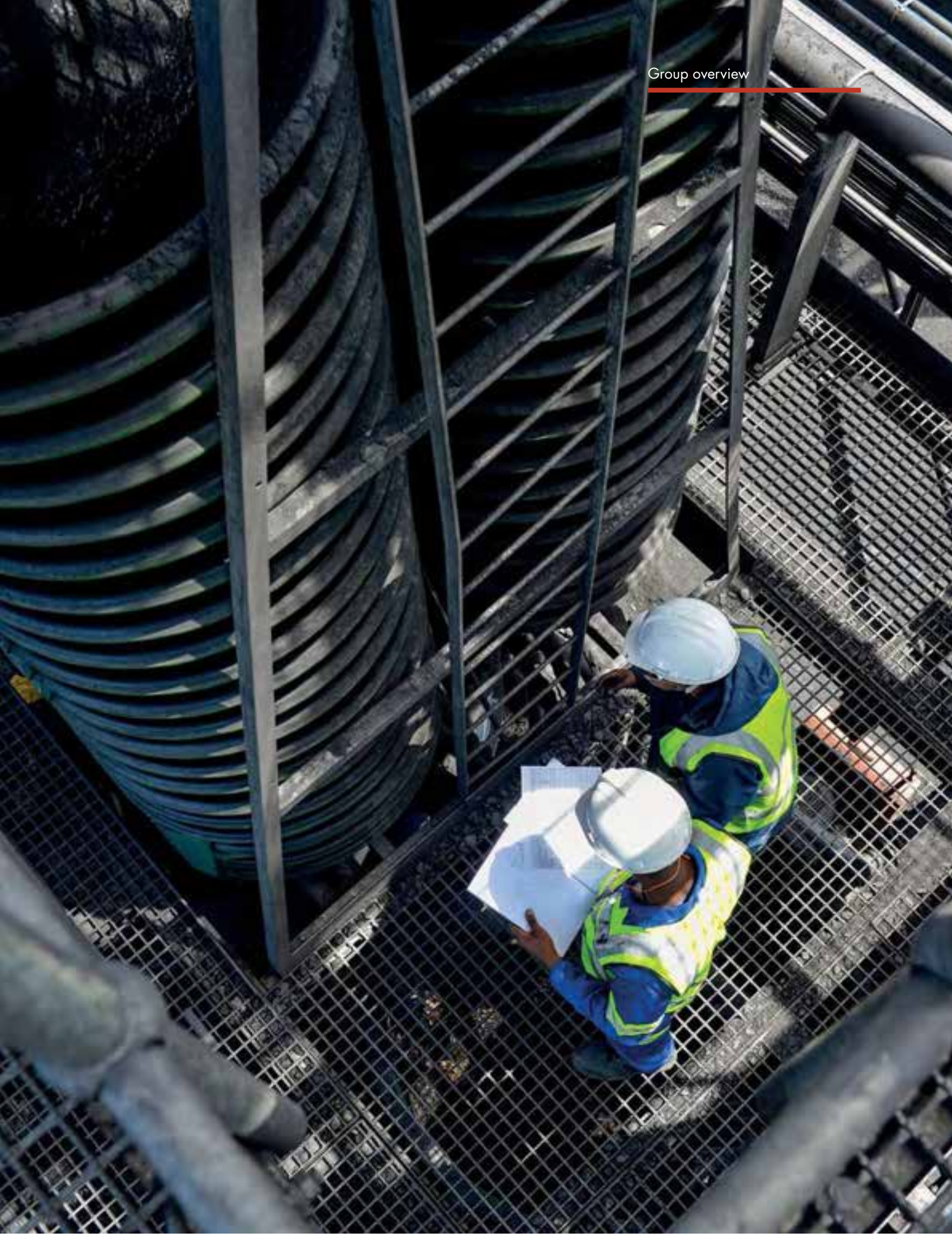

Sales volume (group) and ROM volume (production)




** Normalised, as published with FY17 results.*

# GROUP STRUCTURE





# OUR MARKET IN CONTEXT

Sources: The South African Data portal, International Energy Agency, Engineering News, PwC South Africa

## Coal mining is a significant part of the South African mining landscape, contributing R71 billion to national GDP and employing 82 thousand people.

### INDUSTRY HIGHLIGHTS

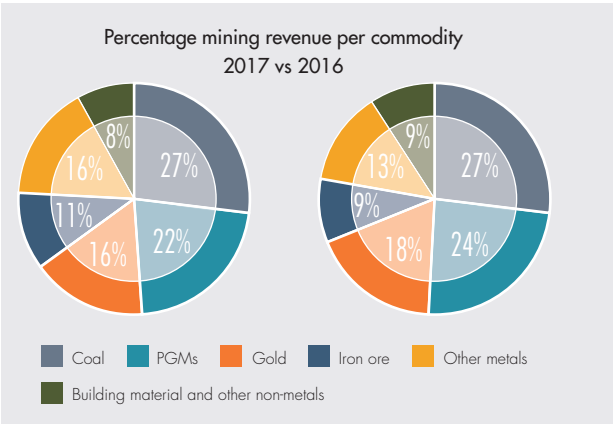
- Global economy gradually recovering
- SA GDP growth of 1.21% (mining 2.8%)
- SA downgrade avoided
- Volatility of ZAR
- SA mining regulation uncertainty
- Stable but competitive coal trading environment

Coal is currently the most important energy source in the world after oil and it is also one of the cheapest and most abundant energy carriers. South Africa has an estimated 30 billion tonnes of coal representing 3.5% of the world's coal resources and produces 3.3% of the world's annual coal production. As such, Wescoal remains intent on playing an active role as a consolidator in the junior coal sector and will continue to consider value-enhancing opportunities.

World fuel shares of electricity generation (%)

| | 1973 | 2014 |
|---|---|---|
| Coal | 38.3 | 40.8 |
| Natural gas | 12.1 | 21.6 |
| Oil | 24.8 | 4.3 |
| Nuclear | 3.3 | 10.6 |
| Hydro | 20.9 | 16.4 |
| Other | 0.6 | 6.3 |

*Source: International Energy Agency, 2016*




*Source: Stats SA*

### THE MARKET IN WHICH WE OPERATE

The South African mining industry had a tough 2017 filled with uncertainty about the sustainability of the sector; however the negative environment was offset somewhat by the excellent recovery in the prices of coal, with prices growing by 4% to 5% in August 2017. Coal prices have rebounded by about 100% since the 10-year low in January 2016 on the back of various factors. Implementation policy in China led to the increase in coal imports. Further, the Australian and Indian coal industries also experienced difficult times with striking miners.

In addition during 2017, many jurisdictions put in place environmental laws which have created a negative climate for investment into coal mining projects. However, developing economies, including South Africa, continued to rely on coal as a cheap, efficient source of energy. This has resulted in a substantial imbalance between coal demand and coal supply. During FY17 coal demand significantly outstripped coal supply, resulting in substantially higher coal prices. We expect this imbalance to continue on a global level for the short to medium term and to be even more pronounced in developing economies such as South Africa.

### FAST FACTS SA COAL

**81%** of energy produced by Eskom is generated using coal

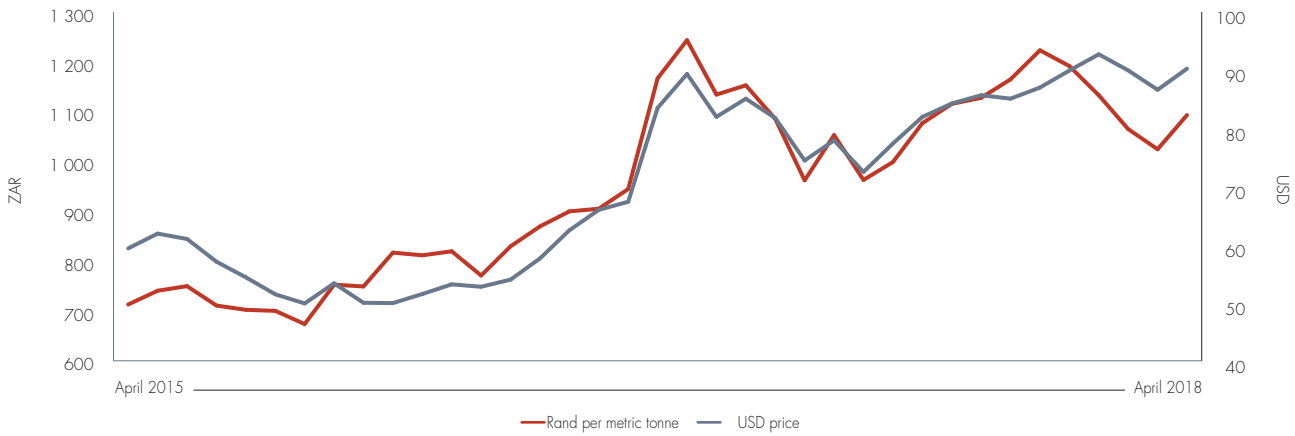
South African coal production **252.6mt**

Direct employees **81 962 people**

South Africa is a net exporter of coal and exports amount to **6% of total global exports**

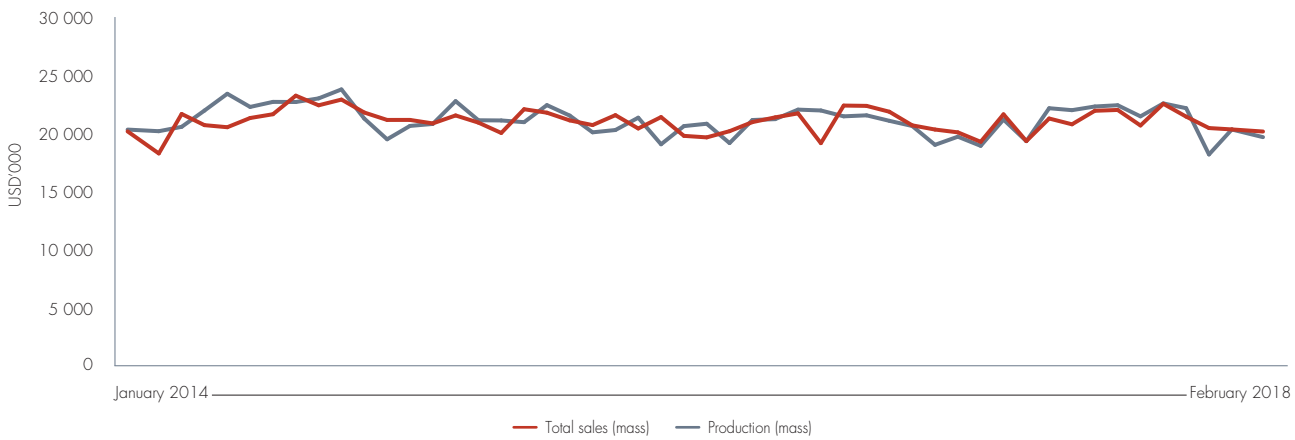
*Source: Chamber of Mines*

Coal price – South African export




*Source: Department of Mineral Resources*

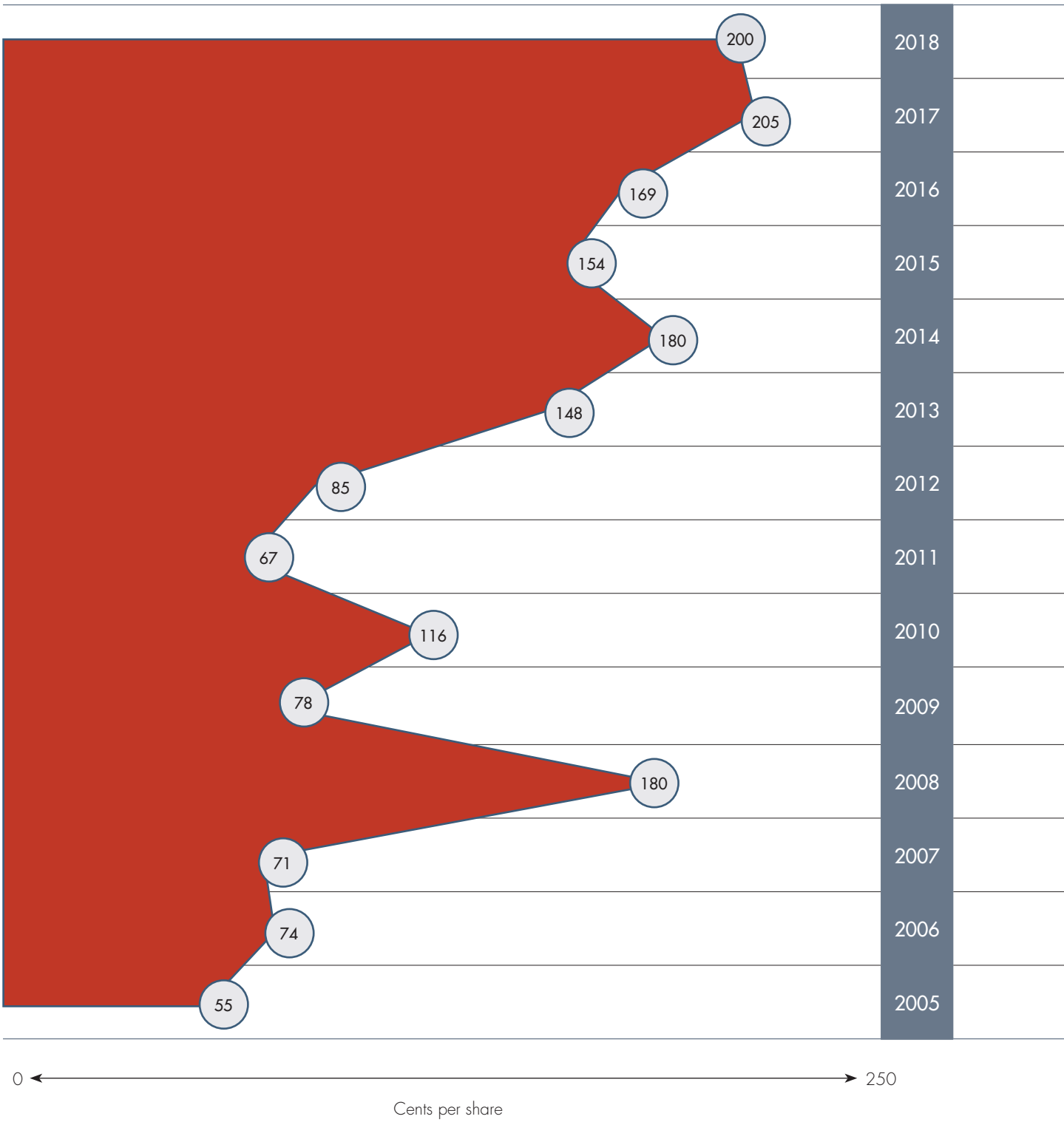
South African coal – supply and demand




*Source: Department of Mineral Resources*

# KEY MILESTONES

Wescoal share performance



| GROUP ACTIVITY | MINING ACTIVITY | ACQUISITIONS AND PURCHASES |
|---|---|---|
| • Nedbank long-term funding for R440 million | | • Acquisition of Keaton Energy |
| • Concluded a BEE transaction securing 51%+ HDSA ownership required for Eskom and raising R178 million through a rights offer<br>• Five-year, 7.8mt Eskom contract signed<br>• Share capital issued raised R53 million and increased BEE shareholding to 40% | • Khanyisa's life of mine extended by up to four years<br>• First coal from Elandspruit Colliery | |
| | • Extension of life of mine at Intibane to 2016 | • Acquisition of Wescoal processing plant |
| | • Intibane Colliery commences mining | • Acquisition of MacPhail business |
| | | |
| | | |
| • Listing moved to the JSE Main Board, Mining, sub-sector Coal | | |
| | • Commenced mining at Khanyisa Mine | • Acquisition of Khanyisa Mine with in situ coal resources of 4.5 million tonnes |
| | | • Chandler purchased the business of Atlantis and Express<br>• Acquisition of Intibane reserves |
| | | |
| • Listed on AltX Board of the JSE | | |

# DIRECTORS AND EXECUTIVE MANAGEMENT

## BOARD OF DIRECTORS

Please refer to the website http://www.wescoal.com/about-us/leadership/ for detailed CVs

1

**ROBINSON RAMAITE** (49)
*Non-executive chairman*

Master of Management (Public and Development Management) (University of the Witwatersrand), BJuris (University of the North)

**Appointed**
20 November 2007

**Skills brought to Wescoal**
Strategic leadership, mining, management, legal, board and committee experience

2

**WAHEED SULAIMAN** (44)
*Chief executive officer*

BSc Chemical Engineering (University of Cape Town), BCom (University of South Africa)

**Appointed**
1 February 2015

**Skills brought to Wescoal**
Strategic leadership, mining, financial

3

**IZAK VAN DER WALT** (48)
*Incoming chief financial officer*

CA(SA), BCompt, BCompt Honours, CTA

**Appointed**
1 September 2017

**Skills brought to Wescoal**
Financial, mining, capital management

4

**DR HUMPHREY MATHE** (67)
*Independent non-executive*

MSc (Rhodes), PhD (University of Natal)

**Appointed**
1 August 2013

**Skills brought to Wescoal**
Strategic leadership, mining, geology, board and committee experience

5

**TERESITA VAN GAALEN** (60)
*Lead independent non-executive*

Sociology (ENCR), Strategic Marketing (Unisa), NDip PR and Communications (Damelin), Admistración y Dirección de Empresas (ESADE), LED, IEDP (GIBS)

**Appointed**
17 July 2009

**Skills brought to Wescoal**
Strategic leadership, business development, transformation, marketing and communications, board and committee experience

**BOTHWELL MAZARURA** (45)
*Outgoing chief financial officer*
CA(SA) BAccSci

**Appointed**
1 July 2016

**Resigned**
31 August 2017

Audit, risk and compliance committee | Remuneration and nomination committee | Social and ethics committee | Project and investments committee

6

**KABELA MAROGA** (38)
*Independent non-executive*

CA(SA) BCom (Financial Accounting) (University of Pretoria), BCompt (Hons)/ Certificate in the Theory of Accounting (University of KwaZulu-Natal), Graduate Diploma in Mining Engineering (University of the Witwatersrand)

**Appointed**
1 July 2013

**Skills brought to Wescoal**
Financial, corporate finance mining, board and committee experience

7

**KOSIE PANSEGROUW** (57)
*Non-executive*

BCom Accounting (RAU)

**Appointed**
1 June 2005

**Skills brought to Wescoal**
Strategic leadership, board and committee experience

8

**THIVHA TSHITHAVHANE** (40)
*CEO Mining and executive*

BSc Chemical Engineering (UCT) and MDP (Unisa)

**Appointed**
4 April 2016

**Skills brought to Wescoal**
Operational, process design and project management, mineral processing

9

**ERIC THUTHUKANI MZIMELA** (61)
*Non-executive*

Analytical Chemistry (Diploma) (M.Setlogelo-Technikon Pretoria), MDP (Unisa), CPIR (Certificate Programme in Industrial Relations) (University of the Witwatersrand)

**Appointed**
17 November 2017

**Skills brought to Wescoal**
Strategic leadership, financial, banking, analytical chemistry, industrial relations

10

**CECIL MASWANGANYI** (53)
*Non-executive*

BCompt (Unisa), MBL (Unisa), Post-Graduate Diploma in Taxation, Advanced Diploma in Management Accounting (CIMA)

**Appointed**
17 November 2017

**Skills brought to Wescoal**
Strategic leadership, financial, auditing, tax, board and committee experience

# DIRECTORS AND EXECUTIVE MANAGEMENT continued

## EXECUTIVE MANAGEMENT

1 **WAHEED SULAIMAN**
*Chief executive officer*

2 **IZAK VAN DER WALT**
*Chief financial officer*
Appointed
September 2017

3 **VIKESH DHANOOKLAL**
*Group legal adviser*

4 **THIVHA TSHITHAVHANE**
*CEO Mining*

5 **BONGANI HLOPHE**
*Group HR head*

6 **MIKE BERRY**
*CEO Trading*

## MINE MANAGERS

**THULANI NDLOVU**
*Integration manager (Mining)*

**ISAK NKOSI**
*Mine manager*
Vanggatfontein

**BAAT LEOANARD**
*Mine manager*
Elandspruit

**JAAP KRUGER**
*Processing manager*
Wescoal Processing

**SHARON MACKENZIE**
*Procurement, logistics and sales manager*

*Sadly, Ian Letshaku the mine manager at Intibane and Khanyisa Complex, passed away during the year. A replacement is currently being sought.*

# TALKING STRATEGY

# OUR BUSINESS MODEL

Wescoal Holdings is involved in the mining, processing, supply, sales and distribution of coal and coal-related products.

THE RESOURCES WE USE...

## Financial capital

- Debt and equity capital
- Capital investment in equipment
- Cash flow and working capital management

## Manufactured capital

- Mine infrastructure
- Processing plants
- High-quality, well-maintained plant

## Human capital

- Skilled executive team
- Experienced board
- Skilled employees
- Skills and development programmes

## Social and relationship capital

- Social and labour plans
- Community liaison
- Transformation
- Stakeholder engagement

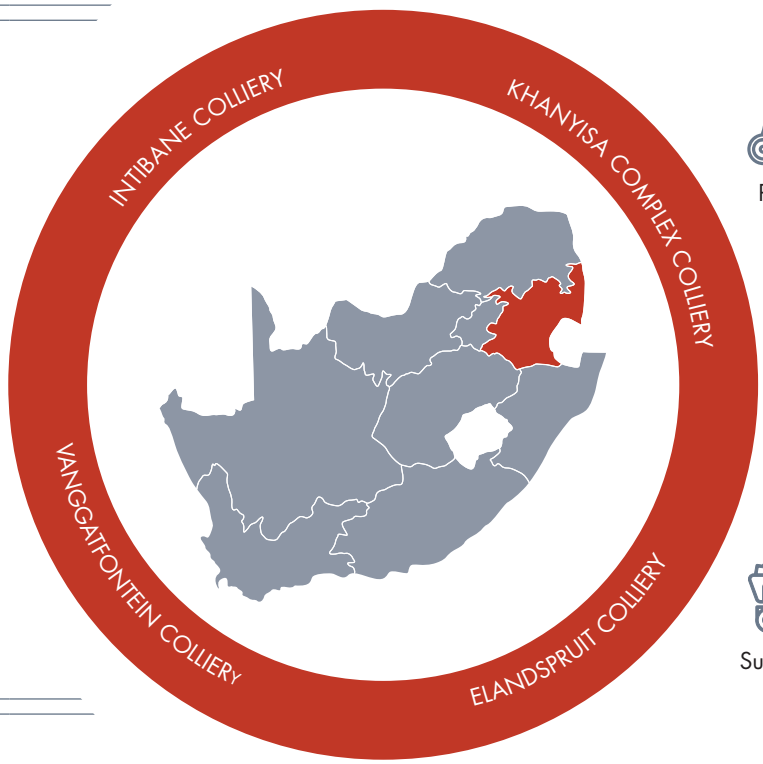
## Intellectual capital

- Innovative technologies
- Mining and prospecting licences

## Natural capital

- Land
- Water
- Energy

TO ENABLE US TO ENGAGE IN...




Mining

Processing

Supply

Sales

Distribution

| | ...SO WE CAN ACHIEVE | ...AND CREATE VALUE |
|---|---|---|
| | • Sustainable income growth<br>• Shareholder returns<br>• Capital to fund business expansion<br>• Business sustainability | • EBITDA up 164% to R538 million<br>• Revenue up 67% to R3 527 million<br>• Dividends of R26 million paid to shareholders (FY18 final dividend R35 million)<br>• Capital reinvestment of R68 million<br>• Secured R440 million of funding facilities<br>• Taxes paid R115 million |
| | • Power-generating coal of different grades<br>• Safe, sustainable operations | • 6.8 million tonnes of coal produced<br>• 3.3 million tonnes of coal supplied to Eskom<br>• Resources 300 million tonnes |
| | • Empowered and motivated staff<br>• Performance-driven environment | • 166 employees<br>• R107 million paid in remuneration<br>• R4 million paid on skills and development |
| | • Job creation in rural communities<br>• Community upliftment<br>• Partnerships with local businesses and enterprises | • SLPs<br>• CSI spend of R18 million<br>• 19 houses built<br>• R18 million invested in 11 kilometres road upgrade<br>• Over 60% of employees are local to our projects<br>• Enterprise development – R1 million invested in local businesses which partner with Wescoal<br>• R1.5 million spent on Phola community hall upgrade |
| | • Mining and prospecting licences<br>• Processing efficiencies<br>• Extracting coal cost-effectively and sustainably | • Improved mining processes |
| | • Energy source and supply<br>• Manage water and energy use responsibly<br>• Restore and rehabilitate land to its original state after mining activities | • Producing coal to generate electricity<br>• Rehabilitate land<br>• Reduce water consumption and emissions |

# STRATEGY SCORECARD

| Objective | Progress in FY18 | Target FY19 |
|---|---|---|
| Safe and responsible operations | • Zero fatalities and low LTIFR<br>• SLPs in place and engagement with local communities<br>• No environmental regulation contraventions | • Zero fatalities and reduced LTIFR<br>• No environmental regulation contraventions |
| ROM of 8mtpa | • Achieved 6.8 million tonnes per annum at year-end | • Sustain efficient production at the rate of 8 million tonnes per annum |
| Maintain 51%+ BEE ownership | • BEE in excess of 50%<br>• Community initiatives | • Participate more actively in transformation conversation |
| Participate in consolidation of coal market/growth | • Acquisition of Keaton Energy | • Assess viable acquisition opportunities<br>• Review growth in logistics infrastructure (sidings) |
| Deliver solid and predictable financial performance | • Shareholder return of 60% over two years<br>• Cash flow generation yield of 51%<br>• Earnings yield of 29% with EPS of 48.1 cps | • Progressive growth to be sustained, increasing shareholder return |
| Integration of Keaton Energy | • Operations fully integrated<br>• Systems fully integrated | • Cultural integration ongoing |
| Efficient and sustainable operations | • Single largest customer generates 47% of revenue<br>• Total cost inflation limited and synergies target exceeded<br>• Return on invested capital 27%<br>• Long-term funding secured | |

# OUR PERFORMANCE

**Completed transformational**
Keaton transaction

Continued to progress
**BEE transformation**

Nedbank funding **secured**

# CHIEF EXECUTIVE OFFICER'S REPORT

It has been another exceptional year for the company with strong performances across the entire group, building on the good work done in the past. Our aim was to create a sustainable business and we believe we have achieved this. We are close to our targeted 8 million tonnes per annum run of mine ("ROM") and look forward to expanding further.

**Waheed Sulaiman** *Chief executive officer*

## THE YEAR IN REVIEW

Over the past three years our EBITDA, profit after tax and revenue have increased 71%, 91% and 28% respectively per annum and we see this trend continuing.

One of our key milestones this year has been the completion of the Keaton transaction, which has been a strategic and transformational acquisition boosting Wescoal's asset base and increasing coal production capacity by 90%. Keaton Energy has been successfully integrated into Wescoal's operations and we have secured fixed and overhead savings of R30 million for the nine months ended 31 March 2018 with the closure of the Keaton Energy head office. Other savings realised through consolidation and services and increased buying power have yielded a further R10 million per annum. We see further savings in FY19.

In line with improving efficiencies and systems we introduced the SAP integrated management tool across the group. This systems integration created a reporting platform encompassing the entire group including mining, trading and the new Keaton operations which will aid operational and risk management as the business continues to expand.

We have implemented and embedded a robust risk-based decision-making process and are evolving our planning processes, which will further benefit business optimisation.

In October 2017 we secured additional long-term debt funding from Nedbank. This demonstrates further confidence from the traditionally conservative banking institution in our business model and prospects.

During the year our business with Eskom continued to flourish which further secures our annuity income. As the majority of our shareholders are South African they are already exposed to country risk and have a better understanding of our risk exposure. Despite challenges that have been publicly declared, Eskom is dealing with these under a new board and leadership team and the parastatal remains a good and vitally important customer.

The political environment changed over the past year which we believe will bring increased opportunities and an improved economic climate as well as facilitate our relationship with Eskom and other parastatals.

## BUILDING A SOLID TEAM

We have built a strong executive management team and are continuously developing our internal strengths and skills sets across all levels within the company. This feeds into our focus on sustainability as we can continue to operate successfully even as team members move onto other opportunities. We have solid succession and development planning in place. An example of our internal succession programme is Izak van der Walt, who gained experience both as acting chief financial officer ("CFO") and as financial manager: operations before he was appointed as CFO in September 2017.

Our people are central to our business and we are seeking to become an employer of choice in SA's coal sector. We are looking at improving working conditions not only in terms of remuneration but also other aspects in order to facilitate a productive working environment.

## TRANSFORMATION

Notably we continued to make progress on transformation during the year, which is an area in which we wish to develop and play a leading role. Wescoal is a Level 2 BEE contributor with 58%

black ownership and over 80% black employees. As detailed in the Chairman's report we will also be introducing a broad-based employee empowerment scheme in the near future.

Our majority black ownership continues to differentiate Wescoal from other coal miners.

## OUR STRATEGY OF GROWTH

We are seeing the realisation of our sustainable growth strategy having moved from operating day-to-day to now being in a position to focus on growth, diversify into new markets and optimise our operations. Wescoal has sustained a steady period of growth and profitability with a three-year growth average of 91% per annum. The past three years, with R85 million returned to shareholders through our progressive dividend and share buy-back programmes, show a compounded annual growth rate of 129%.

We have great growth options within the company and see real possibilities of unlocking inherent value in the company. Additionally, we are well positioned to continue playing a role as consolidator in the SA junior coal sector and we would not disregard acquisitive opportunities that enhance shareholder value.

We are not yet at the end of our growth phase but on the cusp of a new one. We have achieved 90% of our initial objectives and are setting new goals for further growth over the next few years.

## SUSTAINABILITY

We are committed to building a sustainable business and being a good corporate citizen. Ethics and corporate governance are imperative to our sustainability and a commitment to these principles runs throughout the group.

Our commitment to socio-economic development is outlined in our social labour plans (see pages 42 and 43 for further detail). In addition we are continually looking at means to make a greater impact in communities such as assessing the use of farmland owned by Wescoal to enhance food and water security for local communities.

## DIRECTORS

We were pleased to welcome Izak van der Walt to the board as CFO in September 2017. Izak was acting in this role in 2016 and gained further operational financial experience working with Bothwell Mazarura, the previous CFO, who left in August 2017. I look forward to working closely together with Izak to continue realising our business objectives. We also welcomed Cecil Maswanganyi and Eric Mzimela as non-executive directors in November 2017.

## LOOKING AHEAD

Going forward we want to further optimise existing businesses and assets as well as pay particular attention to the group's capital structure with a view to increasing value to shareholders.

We will continue to look for external growth opportunities and participate in the consolidation of the coal sector. While we will be focused on maximising value from our existing assets, we believe more acquisition opportunities exist not only for coal assets but also related strategic infrastructure assets. We will also look at developing our projects, including Moabsvelden and Vanggatfontein extension.

In the long term we are committed to exploring opportunities in our area of expertise, which is mining and coal-related activities.

## APPRECIATION

I thank our dedicated and committed executive team and all employees for their hard work and loyalty which has contributed to a successful year for Wescoal. My appreciation also to our board for their wise counsel and strategic guidance, and to our advisors.

Waheed Sulaiman
*Chief executive officer*

30 July 2018

# OPERATIONAL REVIEW

While Wescoal's origins lie in coal trading (it was incorporated in 1996 under the Chandler name to purchase the coal trading business and other assets of the Chandler family), the Mining division is today the bigger part of the company, accounting for 65% of revenues and 87% of earnings. The Trading division nevertheless remains an important contributor to Wescoal and ranks as one of the leading coal distributors in South Africa.

The year under review has been a busy and productive year for Wescoal with the Keaton Energy acquisition, its integration into the group and the excellent performances from the operational businesses.

## KEATON ENERGY ACQUISITION

At the beginning of June 2017, Wescoal acquired Keaton Energy for R525 million and now owns coal resources in excess of 300 million tonnes, as well as four operating mines, four processing plants and significant interests in coal supply chain infrastructure. With the Keaton acquisition, we now have a second large operation in the form of Vanggatfontein, which is similar in size to Elandspruit and which has a remaining life of around 9 to 15 years.

The integration of Keaton Energy into the group has progressed according to plan and has continued to realise significant synergies. Keaton Energy's personnel have been redeployed and downsizing of senior staff has been completed.

The combined effect of these savings has been in excess of R40 million a year. The group endeavours to further improve operational cost-savings and efficiencies by eliminating duplication in contract services and assessing which services to insource and outsource.

All the Wescoal operations performed well during the year under review and production performance was in line with expectations.

## ELANDSPRUIT MINE

The Elandspruit mine, our flagship, is now a mature operation and continues to perform well. Wescoal established its credentials in the coal space with the development of Elandspruit, then a greenfield project, within a matter of months for a capital cost of around R250 million funded mainly from internal cash flows. Elandspruit provides scale and sustainability, with its ability to produce at up to 3mt ROM per annum and its life of around seven years.

It is located eight kilometres west of the town Middelburg in Mpumalanga with location 25.80982°S latitude and 29.38474°E longitude. The site is about 200 kilometres from Johannesburg. It comprises portions of the farm Elandspruit 291 JS. The DWS awarded a WUL to Elandspruit in March 2015 allowing for development of the mine under all the necessary compliance requirements.

Operational efficiencies at Elandspruit Colliery resulted in increased production and additional boxcuts being bought through an agreement from a neighbouring mine to fast-track production and increase efficiency without the outlay of much capital. These synergies with its neighbours have allowed the mine to open additional opencast mining faces and have also expedited the opening of the underground section, which is accessed via an adit on a neighbouring property.

Elandspruit has reached and is exceeding its steady-state production level with multiple faces active to allow for synchronised mining activities. There is also a new opencast mining contractor – Emalahleni-based IPP Mining & Materials Handling – in place, which is maintaining monthly targets. The mine currently produces 220 000 tonnes per month from the opencast area and around 30 000 tonnes per month from the underground operation.

## KHANYISA COMPLEX

The Khanyisa complex comprises the historical Khanyisa mining area (mined-out), the Catwalk and the Triangle Areas, all of which have been consolidated into one mining complex. The complex is located 10 kilometres west of Ogies in Mpumalanga. It comprises portions of the farm Heuvelfontein 215 IR. The location of the complex is 26.042950°S latitude and 28.973325°E longitude.

The Khanyisa mining complex was consolidated into one mining right. An amended Mining Right was granted in May 2017 and is underpinned by a joint venture in respect of the Triangle Area. Wescoal owns an effective 35% of the Triangle Area and manages the complex. A WUL for the whole integrated area was awarded in May 2016.

The Khanyisa Colliery complex was under care and maintenance and started during the first quarter of FY18.

## INTIBANE COMPLEX

The Intibane complex is located about 14 kilometres west of Ogies in Mpumalanga. It comprises portions of the farm Vlakvarkfontein 213 IR and covers an area of 167.78ha. The Intibane 2 area is located adjacent and immediately to the north of the mined-out Intibane Colliery (Intibane 1). The R555 road passes to the north of the property and the Kendal Power Station is situated 13 kilometres east of the property. The location of the Colliery is 26.059267°S latitude and 28.888322°E longitude.

At Intibane 2 Colliery, production which commenced during FY16 has progressed well with the crushed ROM being partially upgraded through an XRT (secondary x-ray transmission belt sorter) plant.

## VANGGATFONTEIN COLLIERY

Vanggatfontein Colliery is 16 kilometres south-east of Delmas in Mpumalanga. An IWUL was issued by DWS in January 2015 and the colliery endeavours to be self-sufficient in terms of water supply and usage. The water management system is designed to separate clean and dirty water and to optimise the recycling and reuse of dirty water.

Vanggatfontein Colliery produces coal for the national utility Eskom.

Vanggatfontein is producing at a rate of approximately 3.6mt per annum and has been successfully integrated into the Wescoal group.

The coal is treated in two plants – at 500 t/h, 2- and 4-Seam plant, which produces thermal coal for Eskom, and a 100t/h 5-Seam plant, which has in the past been used to toll treat external material and also produce metallurgical coal.

## UPDATE ON LATEST PROJECTS

### Moabsvelden project

Moabsvelden is located approximately 16 kilometres south-east of Delmas in Mpumalanga, at 26.0905475 latitude and 28.490815°E longitude. Project development work at Moabsvelden, which is a short-term priority, has also progressed well.

Moabsvelden is in close proximity to the Vanggatfontein property. With a 47.8mt resource, it has the potential to be developed into a 1.5 to 2mtpa ROM operation.

Moabsvelden is fully permitted and there is capacity for the coal it produces to be processed at facilities at Vanggatfontein. It is being examined whether underground mining or a combination of underground and opencast might be a better option for development.

## Sterkfontein project

**Location:** Approximately 5 kilometres south-west of Bethal in Mpumalanga, approximately 89 kilometres south of Emalahleni and 149 kilometres east south-east of Johannesburg

**Area:** 7 926ha

Sterkfontein targets the No.4 Lower (No.4L) and No.4 Upper (No.4U) Seams of the Highveld Coalfield. It is planned for the Sterkfontein coal to be mined using an underground bord and pillar method with the use of continuous miners.

The coal is intended to be processed using a double-stage circuit to produce a primary export thermal product and a middlings product for potential sale to Eskom. The Coal Resources for Sterkfontein were independently estimated, classified and signed off by CCIC Coal. The Sterkfontein MTIS Coal Resource estimate declared comprises 50.29mt Indicated Coal Resource and 40.64mt Inferred Coal Resource for a total of 90.93mt. No Coal Reserve has been declared for Sterkfontein. KEHL granted an option to Moneybox Investments Proprietary Limited, previously a shareholder in Labohlano Trading 46 Proprietary Limited, to acquire 100% of the Sterkfontein project. This option expired on 30 April 2017 and it was further extended to end in October 2017. A Mining Right application has been submitted and we await feedback from the DMR.

## Leeuw Braakfontein Colliery ("LBC")

**Location:** Approximately 10 kilometres east south-east of Newcastle in KwaZulu-Natal. bordered to the north by Madadeni Township and to the east by Osizweni Township

**Area:** 1 951.66ha

LBC is an advanced-stage exploration property situated on the Klip River Coalfield and targets the Top and Bottom Seams. It is planned for the LBC coal to be mined using predominantly underground mining methods, making use of the bord and pillar mining method, with the use of continuous miners. Shallow coal on the flanks of the resource area have potential to be extracted using opencast methods.

The coal is planned to be processed for potential sale to Eskom. The LBC Coal Resource has been independently estimated, classified and signed off by CCIC Coal. The MTIS Coal Resource estimate declared comprises 60.06mt in the Indicated Coal Resource category. No coal reserves have been declared for LBC. LBC was held 100% by LME, and LME has since been disposed of by KEHL, after the successful conclusion of the disposal, LBC was acquired by KEHL thus becoming 100% held by KEHL. There have firm enquiries from interested companies to purchase LBC from KEHL.

## Brakfontein and Rietkuil project

**Location:** Approximately 16 kilometres south-east of Delmas in Mpumalanga

**Area:** 421ha

These properties are contiguous to Vanggatfontein, an operating colliery of Keaton Mining, and as a result an MPRDA section 102 application was submitted on 17 April 2018 to combine the three properties. We await approval from DMR.

## Wescoal processing facility

The processing facility is the primary coal processing facility for Elandspruit Mine. The plant was purchased from Muhanga in 2014 and is regularly upgraded to meet customers' product quality and quantity requirements.

The combined installed ROM treatment capacity is now proven to be more than 200 000 tonnes a month. The upgrades to the raw coal handling section enable more than 250 000 tonnes a month to be crushed.

The complex consists of a crushing section and drum/cyclone and fines treatment plants that can produce a range of products to meet the demands of Eskom, other domestic consumers and the export market.

Elandspruit's production is now close to exceeding the processing plant's capacity and the company has entered into an agreement with one of Elandspruit's neighbours which will see some of Elandsfontein's coal being treated on a 'toll basis'. This arrangement has boosted Wescoal's treatment capacity without the need for any capital expenditure.

Wescoal's strategy to diversify its income streams has placed the group in a better position to meet Eskom's increased demand as well as to optimise supply into other domestic and export customers.

Total ROM production attributable to Wescoal reached 3.1 million tonnes by end March 2018 and the group achieved its announced eight million tonnes ROM production rate target.

## TRADING

Wescoal Trading is a leading coal distributor in South Africa. It is a strategic distribution company that specialises in the supply of coal by road and rail to the point of consumption, to diverse customers and industries throughout South Africa, including blue-chip companies ranging from power generation to manufacturing sectors.

The company offers a complete range of coal products on a countrywide basis, including:

- Sourcing suitable coal product for clients;
- Securing the delivery of product as and when required;
- Technical support for steam generation; and
- Securing markets for new producers such as other junior coal miners.

During the year the right-sizing of the division was completed and we continued to reduce our operating structures and improve efficiencies. The fixed cost base and operational footprint were reduced while maintaining profits and improving the quality of the debtors book.

Significant focus was placed on upskilling all employees and materially improving BEE. We improved gross profit margins, operating profits and improved the B-BBEE scorecard rating to Level 4 through the successful implementation of a sustainable B-BBEE model. The model included skills development for both the employees of Wescoal Trading and unemployed disabled females, which has added to the diverse skills within Wescoal Trading. The socio-economic development programme that was run benefited more than eight charities and individual beneficiaries numbering over 100 with the aim of promoting the enhancement of those less advantaged. The sustainable model also resulted in inclusive economic growth for our enterprise and supplier development beneficiary (see *Sustainability* on pages 38, 42 and 43 for further detail).

# CHIEF FINANCIAL OFFICER'S REPORT

HEPS ▲ by **311%** to
**46.4 cents per share**
(FY17: 11.3 cents per share

Gross profit ▲ by **54%** to
**R565 million**
(FY17: R367 million)

# Sustainable rapid growth enabled by strong and consistent operational performance from the growing asset base has seen revenue increase by 67% to R3 527 million (FY17: R2 118 million).

**Izak van der Walt** *Chief financial officer*

Total comprehensive income (net profit after tax) increased by 569% to R202.0 million (FY17: R30.2 million), a six-fold increase on a three-year basis and HEPS increased 311% to 46.4 cents per share (FY17: 11.3 cents per share).

The acquisition of Keaton Energy during June 2017 marks a significant milestone on Wescoal's continuous growth trajectory. Operational and financial performance of the acquired business is in line with expectations. Various improvement and efficiency projects are being implemented in a measured fashion to advance value enhancement opportunities supporting the group's philosophy around standardisation and scalability.

The enlarged group has coal resources of 300 million tonnes, four operating mines, four processing plants and significant interests in coal supply chain infrastructure. A more diverse revenue stream, customers and product options has enabled growth and expansion of the business.

Mining volumes doubled for the second consecutive year and the group's diversified revenue streams from the expanded business increased non-Eskom domestic sales to 3.2 million tonnes. Eskom accounted for 47% of revenue (25% being from newly acquired Vanggatfontein Colliery).

Strong operational performance resulted in gross profit increasing by 54% to R565 million (FY17: R367 million).

The improved profitability translated into R358.8 million of cash generated from operations (FY17: R253.5 million) enabling repayment of short-term debts while continuing to pay dividends. The cash generated from operations was largely applied to fund investing activities (R119 million), tax payments (R114.8 million), to reduce interest-bearing debt (R94.4 million) and to reward shareholders with dividend payments (R26.0 million paid during the year). As part of its investing activities the group reinvested R63 million (42%) in projects to improve and expand operations, with the focus on the processing plant, diversion of the D20 road to Elandspruit and enabling access to resources in the Catwalk Area of the Khanyisa mine.

Cash flow generated from operations is 86 cents per share equating to a 51% yield, Wescoal clearly outperforms peers.

This creation of value for shareholders is an outstanding achievement given the challenging economic environment. This success can be attributed to Wescoal's ability to capitalise on opportunities in the coal sector.

## CAPITAL STRUCTURE

The group's strengthened balance sheet maintained a gearing ratio of 29% after the acquisition of Keaton Energy (FY17: 27%). Net asset value per share increased to 239 cents compared to 196 cents at 31 March 2017. Strong cash flows from operations have allowed Wescoal to repay expensive short-term debt while continuing to pay dividends to shareholders.

Wescoal secured long-term debt funding with Nedbank which facilitated the consolidation and optimisation of various debt instruments. Combined with strong cash generation the underlying net current asset position, excluding restricted cash balances in FY17, improved by R137 million.

The group is well positioned to take advantage of acquisition opportunities when they arise.

Wescoal maintained BEE ownership subsequent to shares issued for the Keaton acquisition and the effective BEE shareholding at 58% of which 48% is secured for five years via the BEE structure.

## DISTRIBUTIONS

Considering the financial position and performance, the board resolved to declare a final dividend of R35 million for the financial year ended March 2018. This is the fifth consecutive dividend payment to shareholders as Wescoal sustains progressive increase of dividend amidst the continued rapid growth trend.

The total interim and final dividend for the year amounts to R49 million, a pay-out ratio of 24% and dividend yield of 6.5%. The full dividend declaration and timetable will be announced on SENS.

During December 2017, Wescoal embarked on a share buy-back programme in line with the approval by shareholders. The total number of shares bought to date is 2 million.

Izak van der Walt
*Chief financial officer*

30 July 2018

# ACTING SUSTAINABLY

# STAKEHOLDER ENGAGEMENT

We view communication and relationship management with our stakeholders as integral to our sustainability and a critical part of business strategy. Our stakeholder engagement informs our key strategic discussions and is important in identifying our material issues and the steps needed to address these.

We strive to ensure open and transparent engagement with all stakeholders. A stakeholder evaluation is constantly under review at group level as well as in the Mining and Trading divisions.

We communicate with stakeholders through our website, stakeholder presentations, site visits, annual general meeting, interaction with the media, one-on-one meetings, community forums and ongoing informal and formal discussions.

In the past year we have stated that we wish to play a more meaningful role in the transformation conversation as well as at industry level.

We are aiming to become a public voice for small mining companies. In order to achieve these goals we have joined various industry bodies.

Our key stakeholders and the issues that concern them are outlined below:

| Stakeholders | Key interests | Actions | Engagement |
|---|---|---|---|
| **Primary stakeholders** | | | |
| Financiers | • Loan agreements and financing facilities to Wescoal<br>• Compliance with various covenants | • Wescoal has kept its providers of finance informed of relevant developments<br>• Management of finance facility embedded in performance management programme<br>• Finance covenants tracked regularly | • Formal meetings, updated status meetings and feedback sessions |
| Suppliers | • Continuity of business relationship on commercially optimal terms<br>• Service delivery and quality<br>• Building relationships<br>• Price competitiveness | • Overseen across the group and updated accordingly<br>• On-time delivery is strived for<br>• Regular engagements with suppliers<br>• Gifts register in place | • One-on-one business dealings, presentations on product features and correspondence |
| Customers | • Product quality<br>• Efficient and timely delivery of product<br>• Competitive pricing structures<br>• Service levels<br>• Relationship building | • Conscious effort to meet expectations where applicable<br>• Product quality from both the Mining and Trading divisions is continually monitored<br>• Regular visits to and engagements with customers | • Contract review processes<br>• Formalised business dealings meetings, telephone conversations, credit checks and reviews |
| Contractors | • Service Level Agreements (SLAs), outsourced contract agreements | • Discrepancies in outcomes– good relationships and production according to planning | • Continual monitoring of SLAs and outsourced contracts are adhered to and followed – daily reports, weekly production monitoring meetings and monthly reporting against plan |

# STAKEHOLDER ENGAGEMENT continued

| Stakeholders | Key interests | Actions | Engagement |
|---|---|---|---|
| **Primary stakeholders** continued | | | |
| Shareholders | • Strength of board<br>• Long-term life of mines<br>• Earnings and sustainability of the company<br>• Dividend payments and succession planning<br>• Black ownership<br>• Dividend payments<br>• Single customer dependency<br>• Succession planning<br>• Black economic empowerment<br>• Communicating value proposition of the business | • Targeting growth in logistics infrastructure –sidings<br>• Asset base is being increased<br>• Diversification revenue streams, product mix, export/domestic customers<br>• Management team strengthened<br>• Board appointments<br>• IR strategy reviewed annually | • SENS announcements<br>• Interim and final results presentations and teleconferences<br>• Regularly updated website<br>• Dissemination of information through a defined contact list<br>• Calls with strategic shareholders if and when required<br>• Regular site visits and investor open days to mining facilities<br>• Regular engagements with key shareholders<br>• One-on-one engagements |
| Employees | • Staff development and career planning<br>• Setting and monitoring of performance goals in line with the performance management programme ("PMP")<br>• Market-related and equitable reward and employee benefits<br>• Employment equity and diversity management initiatives.<br>• Review of employee benefits<br>• Policies communicated appropriately and understood | • Employment equity plan in place<br>• Fair and consistent implementation of disciplinary and grievance codes<br>• Consultation of employee representatives<br>• Annual DoL submissions on employment equity<br>• BU EE forum in place<br>• Reports and workplace skills plans<br>• Display of key labour legislation at the workplace<br>• Training sessions | • Training and development<br>• Quarterly staff communication sessions<br>• PMP<br>• Written staff communications and memos<br>• Staff communications sessions ("townhalls")<br>• Periodic policies and practices audit |
| Mining affected communities | • Sustainability of economic empowerment and sustainability initiatives beyond life of operations<br>• Local economic development projects and social and labour planning implementation<br>• Financial support of community upliftment initiatives<br>• Environmental sustainability<br>• Post life-of mine sustainability of communities<br>• Impact of mining on community and environment | • Development of community grievance procedures<br>• Implementation of community bakery initiative and sewing cooperative<br>• Focus on operating responsibly<br>• Rehabilitation programmes | • Mining Future forum<br>• Scheduled meetings with local economic development forums<br>• Social and labour plan initiatives<br>• Corporate social responsibility initiatives (Enterprise development community projects – school renovations and road maintenance works)<br>• NGOs |

| Stakeholders | Key interests | Actions | Engagement |
|---|---|---|---|
| **Secondary stakeholders** | | | |
| Unions | • Advancing matters of mutual interest<br>• Change management programmes<br>• Partnering to effect workplace transformation | • Group EE forum on transformation<br>• Mining EE committee<br>• Working together with contractors to address concerns | • Consultation on reward<br>• Consultation on transformation<br>• Consultation on local economic development and CSI<br>• Black economic empowerment<br>• Skills development |
| Civil society groups | • HIV/AIDS prevention initiatives<br>• Responsible water management initiatives<br>• General "social licence to operate" | • Representations to the Human Rights Commission | • Stakeholder roadshows and awareness campaigns |
| Government and municipalities | • Municipal endorsement of social and labour plans<br>• Company track recording respect of human rights and environmental management performance<br>• Legislative compliance | • BEE ownership in excess of 50% and tracked regularly<br>• Human rights code in place | • Forum participation<br>• Formal meetings<br>• Participation in public engagement with Chapter 9 institutions, e.g. Human Rights Commission<br>• Engagement with municipalities for endorsement of compliance submissions |
| Regulators | • Regulatory and legislative compliance to mining industry standards<br>• BEE Codes and Mining Charter compliance | • Annual submission of annual regulatory compliance and update reports<br>• Tax certificates of good standing<br>• Compliance register system being introduced to manage and track all regulatory matters<br>• Dedicated training programme across group<br>• Whisteblowers hotline<br>• BEE plan and strategy developed | • Annual reporting to the DMR and the Mining Qualifications Authority/ Wholesale and Retail SETA<br>• Department of Water Affairs<br>• Department of Labour<br>• Department of Land Affairs<br>• Department of Trade and Industry<br>• South Africa Revenue Services<br>• JSE |
| Media | • Integrity of communications with all stakeholders<br>• Understanding the Wescoal business | • One-on-one engagement with financial and trade editors and journalists to ensure that Wescoal's strategy is well understood and accurately reported<br>• Circulation of press releases<br>• Media alerts through SENS announcements<br>• Monitoring of media exposure<br>• Media strategy reviewed annually | • Interim and final results presentations<br>• One-on-one engagement<br>• Regular site visits |

# SUSTAINABLE DEVELOPMENT

Wescoal considers sustainable development to encompass responsible management and managing our social and environmental impacts on ecosystems, water, communities and people. Managing risks, creating value, improving and protecting the well-being of our people and communities are essential tenets for the long-term sustainability of the group.

The sustainability of Wescoal's business is underpinned by our current growth-focused strategy. With the acquisition of Keaton Energy, Wescoal enhanced its business sustainability and is on track to produce 8mt a year. Wescoal intends optimising the Keaton Energy asset base which includes increasing production from the Vanggatfontein complex and developing Moabsvelden.

We have progressed in building internal capacity to enhance environmental activities across the spectrum developing our capability to deal with environmental challenges that we may still face.

During FY18, we made great strides in drawing up strategies and policies. Our strategies focus on key areas and material issues such as water use, education, community development, employees' health and safety and the environment. We have set timelines and measurable commitments to ensure continuous improvements of our sustainable performance and prescribed processes of how to measure our environment footprint.

## ECONOMIC INDICATORS

Wescoal is a public listed company on the coal sector of the JSE main board. During FY18, Wescoal secured long-term debt funding from banks, an indication that traditionally conservative financial institutions endorse the Wescoal value proposition. The company has a secure sustainable financial future. Risks are unpacked and managed in accordance with our risk management systems.

Wescoal, being a coal mining and trading company, recognises that its activities of extracting product and generating earnings will impact the environment. Therefore, all our sites develop, implement and maintain rehabilitation plans, which consider economic, social and environmental impacts. Our total environmental protection expenditure amounted to R27 million for waste disposal, emissions treatment, remediation costs and environmental management costs.

| Lost time injury rate | Occupational disease rate | Absentee rate | Fatality rate |
|---|---|---|---|
| **0.34** | **0.07** | **14.7** days per year | **ZERO** |

## SAFETY AND HEALTH

Our philosophy around health and safety is to create a safe, empowering work environment for our employees. We comply with the relevant legislation and ensure that all our mines operate in a responsible manner and within the Mine Health and Safety Act. We are committed to following a comprehensive management programme to ensure a healthy environment for employees. All management programmes are designed to incorporate the Mine Health and Safety, Air Quality and other relevant regulations and compulsory code of practices. An occupational hygiene measuring and monitoring system forms part of this programme to ensure that the Wescoal operations comply with legislation.

All employees are represented by a joint manager-worker health and safety committee.

Health and safety audits are conducted regularly at each operation. All legal compliance is monitored and work stoppage instructions are issued if scores are below 80%.

During the year improvements were made on the contractors packs and foremen files and licence packs for each operator were implemented. The licence pack covers all assessments on the Code of Practices and all relevant Standard Operating Procedures and are only signed off by the engineer and trainer once all documentation is submitted.

We are in the process of installing turnstiles with an alcohol tester and fingerprint reader at each operation to facilitate safe operations and validate employees on entry. This and other measures will minimise the risk of employees entering the operation without a valid medical certificate or induction training.

Employees are provided regular health and safety training and during the year 8 518 participants consisting of employees and contractors received training ranging across induction, first aid, licensing, Hazard Identification and Risk Assessment ("HIRA") and firefighting training.

### Safety

- Elandspruit Colliery had one HPRI during the year which resulted in a LTI sustained from a road closure-related accident.
- Khanyisa Colliery experienced a HPRI with no LTI.
- Additional controls were put in place and re-training done after the incidents at the Elandspruit and Khanyisa collieries.

### Health and safety initiatives

Safety is a major focus area for Wescoal and notwithstanding our extensive safety programme.

### HIV/AIDS and tuberculosis ("TB")

A formal HIV/AIDS policy is in place which was implemented as a result of employee and the group's concerns about HIV/AIDS, sexually transmitted infections ("STIs") and TB infections, and their potential to affect the workplace, and to promote efforts to prevent transmission among Wescoal employees and their families and communities at large.

Wescoal believes that a responsible approach to HIV and AIDS, STIs and TB involves maintaining the interest of the company, its employees and the community. The protection of employees, the company's benefit funds and the community at large are primary objectives and the group strives to achieve a balance between the compelling needs of the infected or affected employees and the legitimate needs of the company.

The policy defines practice standards in relation to TB, HIV/AIDS and STIs and all employees are required to adhere to these standards. The policy is implemented in consultation with employees and unions and is reviewed regularly.

### Occupational health

The occupational health programme at the mines seeks to prevent and mitigate all occupational health risks. Exposure reports are used to measure the actual medical results against the exposure of the employee. Rehabilitation and return to work programmes are in place and employees are referred to external specialists for these programmes.

Medical surveillance for employees and contractors is conducted according to the protocol of the occupational medical practitioner, including initial, periodic and exit examinations; noise- and health-related problems. Medical examinations are conducted on all new employees and routine medical examinations conducted annually on existing employees. Exit medical examinations are conducted before the employee exits the mine and all unresolved occupational issues are addressed during the exit medical examination.

Management of occupational illnesses is done according to the occupational illness investigation procedure following a specific incidence reporting process. Hearing deviations are investigated and remedial action implemented in cooperation with the HSE manager. The same procedure applies to all other occupational

illnesses diagnosed. All chest disease related to occupational health is submitted to the Medical Bureau for Occupational Disease by the clinic.

Health and wellness programmes are conducted on site and include TB screening questionnaire and referral; HIV screening and referral; screening for chronic disease e.g. hypertension, diabetes, cholesterol, high BMI. The health and wellness programme seeks to reduce these lifestyle health problems and to promote a healthy lifestyle to employees. An external psychologist is available to address the psychosocial health of affected employees.

There was no increase in reported cases of noise induced hearing loss ("NIHL") and there was one case of coal workers pneumoconiosis ("CWP") at Uthingo Mining, which operates our underground Elandspruit mine.

| Site | 2016 | 2017 |
|---|---|---|
| Elandspruit | 1 NIHL | 1 NIHL<br>1 CWP |
| Intibane | 1 NIHL | 1 NIHL |
| Khanyisa | 1 NIHL | 1 NIHL |

We are committed to increasing awareness amongst employees of serious diseases and posters about pneumoconiosis, chronic airway disease and compensation for former mine workers are prominently displayed. Health and wellness awareness campaigns address illnesses like TB, HIV, high blood pressure, high blood sugar, high cholesterol and the problems associated with these diseases on a face-to-face basis with employees. Obesity and its associated problems are addressed as well.

## ENVIRONMENT

Wescoal is committed to achieving excellence in all business activities including environmental management and a proactive approach is in place. In its endeavours to achieve this, every operation in the company complies with all the relevant laws and regulations pertaining to the environment.

The company's responsibility is to ensure all employees and affected parties are informed of the risks and hazards associated with environmental impacts. Training of employees is continuously implemented to ensure that the environment is not harmed in any way by mining activities. The environmental effects of its activities on employees and affected parties are monitored by reviewing environmental performance regularly.

Wescoal is committed to rehabilitate sites or areas disturbed by company activities to comply with applicable, approved environmental management plans. The National Environmental Management Act ("NEMA") regulations are also adhered to.

The company applies best practice for sustainable development in surrounding communities ensuring that the long-term impacts on soil are minimised by replacing all available topsoil on the rehabilitated soils, establishing natural vegetation on the disturbed areas and controlling alien invasive species while seeing that the areas not designated for the proposed mining activities are not impacted.

The following three objectives are applied to all operations:

- Ensure that the potential impacts of the proposed mining and civil construction operations on biological diversity and cultural component of the environment are assessed within a planning process and incorporated into field management procedures;
- Monitor and manage those activities that have, or are likely to have, temporary impacts on biological diversity, the cultural component of the environment, groundwater or other land uses, and facilitate rehabilitation so as to minimise such impacts if they occur; and
- Avoid undertaking any activities which have, or are likely to have, long-term significant adverse impact(s) on biological diversity, cultural components of the environment, groundwater or other land uses.

During the year an environmental team was put in place to ensure environmental management which was previously conducted by consultants is now managed internally. All risks have been assessed and action plans with clear deadline are in place to address any areas of non-compliance.

A number of audits were conducted during the year including the, external and internal audits of all environmental authorisations and Eskom audit reports.

Monthly environmental employee talks are held and information is displayed on notice boards and discussed during monthly meetings.

During the year total environmental protection expenditure for waste disposal, emissions treatment, and remediation costs and prevention and environmental management costs amounted to nearly R27 million.

Formal measurement and tracking of emissions was implemented in FY18 and will be reported in the integrated report going forward.

### Distribution Centre

The role of the Distribution Centre is to assist in reducing the group's carbon footprint. The group prioritises its coal transportation method from road to rail. During FY18 this had the dual benefit of reducing the impact on the national road structures and ensuring minimum loss of product during transportation, trans-shipment or bulk storage.

This is but one of the material issues we have evaluated and responded to, thereby minimising our own impact on the environment. The group is in the process of developing environmental policies with specific reference to minimising impact potential from our operations.

## Water licences issued by the DWS

Biological monitoring of the potable water is conducted regularly. During FY18, Wescoal had no water or liquid spills or contamination of water sources, except for an overflow of the pollution control dam at Elandspruit which occurred during flash floods and was reported to the DWS and corrective measures were applied.

No environmental laws or regulations were transgressed, no fines were issued to Wescoal by the DWS and no water licences lapsed in the period under review. During 2018, we will evaluate our water management practices at our existing mines and our newly acquired assets to identify any high water-related risk areas and potential improvements.

## Mine rehabilitation

The process of coal mining disturbs the natural soil composition and land structure. Thus, core to our business is the rehabilitation and restoration of the land over the lifespan of our mines and long after mining activities have ceased. To date, we have met all the rehabilitation requirements as stipulated by our rehabilitation and land management plan.

Planning for rehabilitation begins long before we start any mining activities. This has been the case at Intibane Colliery where mining and farming activities co-exist in partnership with a local farmer. Once the mining activities have ceased and the land has been rehabilitated, the farmer will have first right of refusal to buy back the land for farming purposes.

We have made good progress in rehabilitating the land around Intibane. Our goal is to rehabilitate the mined land to agricultural use or other purposes agreed to by municipalities in consultation with our communities.

## Waste management

Wescoal has receptacles in place for hazardous waste which is professionally removed and disposed of by appropriate external contractors. Certificates of safe disposal were obtained for 33.8 tonnes of hazardous waste for the year under review.

## Dust and noise control

Dust is generated from three main sources: strip mining, coal stockpiles and transportation. Dust suppression is achieved by using mine water to spray affected areas and covering mine roads with dust-retardant materials. A dust monitoring programme is in place and dust levels produced by mining activities are measured and monitored by environmental consultants. All abnormal variations are managed within regulatory guidelines and management processes.

In compliance with DMR regulatory requirements, Wescoal has a monthly occupational hygiene measuring and monitoring system programme which forms part of the Mine Health and Safety, Air Quality and other relevant regulations and compulsory codes of practice.

We follow a protocol on how to deal with mine blasting noise. A communique stating time and date of blasting is sent out to the communities closest to our operations and standard precautions are taken.

At Khanyisa Colliery, we follow a specific mine blasting pattern which is recognised by the community. We observe standard protocols set by DMR requirements. Our mining activities impact on the community as our mining areas approach closer to residential areas. In such instances, we consult with the affected residents and relocate people to safer living areas.

# OUR PEOPLE

## Labour practices and good working environment

Wescoal maintained a relatively small labour force for FY18. The total Wescoal staff complement is set out below:

Group employees

March 2018

| MALE | | | | | FEMALE | | | | |
|---|---|---|---|---|---|---|---|---|---|
| White | African | Coloured | Indian | Total | White | African | Coloured | Indian | Total |
| 8% | 42% | 5% | 2% | 56% | 8% | 32% | 5% | – | 44% |

## Employment equity

Wescoal has made great strides in implementing its five-year employment equity plan initiated in 2016 with transformation taking place at all levels. It has publicly stated its commitment to the plan and progress has specific measures in place. This includes recruitment, retention and development of management and employees. The company is presently focusing on gender balance.

During FY18, we progressed on our employment equity and diversification plans and have been successful in recruiting two senior managers from designated groups as well as appointing a black chief executive officer for the mining business. Our internal talent management programmes and strengthening of the senior management and executive team has allowed us to fill the vacant chief financial officer post with an internally chosen candidate. This is an approach that positions us well when taking advantage of future growth opportunities.

## Labour relations

Wescoal has a workforce of over 2 000 employees including contractor labour in the operations. All our lower-level mining skills are sourced from contractors while oversight and support staff is directly employed by Wescoal. Wescoal maintains a strong relationship with employees, contractors and unions alike. This is important as labour disputes can affect production and threaten the sustainability of the group. No labour disputes were experienced at Wescoal for FY18.

Unionised employee numbers

| Unions (March 2018) |
|---|
| NUMSA |
| 28 |

## Human resources development

Wescoal, including its operating assets, believes that being a responsible employer means being socially and morally responsible to stakeholders. We endorse the Constitution of the Republic of South Africa and international conventions to which the Republic is bound and in so far as they apply to Wescoal and the advancement of their objectives.

Transformation is at the centre of the group's employment and ownership principles. In keeping with the group's 51% minimum black ownership, our enlarged shareholder base is now well above this figure. In addition, a broad-based ownership scheme involving employees is planned for implementation which is likely to further enhance BEE ownership.

Wescoal annually submits a workplace skills plan to the relevant Sector Education and Training Authority ("SETA") which is in line with the Skills Development Act. An annual skills audit wherein the skills level of each employee has been recorded: their training place; highest qualification and future development, training and goals, has been completed for the year under review.

Our performance management programme is in the process of being introduced to lower-level skills staff. The personal development plan, which includes behaviour of competency and technical competency, currently applies only to senior staff. During the new financial year which starts in April 2018 the programme will be rolled out to the rest of the group.

Workshops will be conducted in order to ensure that all our employees understand the new performance plan. Once completed the skills development plan will be converted into a contractual obligation.

We intend to develop our own people and empower them with skills which will sustain their livelihood once our operations have ceased.

# OUR COMMUNITIES

Wescoal is taking practical steps to implement its vision as a material contributor to uplifting its employees and communities through the integration of the company's business values and operations to meet the expectations of customers, employees, investors, suppliers, and specifically the community and the environment falling within its operations.

Wescoal believes that CSR is positioned to embody its corporate philosophy and advances 'CSR-oriented management' as one of its priority issues as a commitment to contributing to socially responsible business practice in South Africa.

In February 2017 Wescoal appointed an internal social and labour plan implementation manager whose role is SLP planning, execution, monitoring and stakeholder engagement with the DMR, local community forums, local and regional councils.

SLPs are in place at all mining operations that meet and go beyond, in some instances, government regulations.

Local communities located within the areas where Wescoal mines are benefiting from the company's programme to create, manage and monitor a full commitment to SLPs that will benefit them. The programme is developed and rolled out in conjunction with the DMR, local community forums and regional councils and covers basic skills development; educational support for tertiary studies, learnerships, internships and Small, Medium and Micro Enterprises ("SMME") development. Specific focus is placed in the skills development of local communities that is tied into Wescoal's local economic development programmes. This includes supporting and mentoring students in the form of bursaries.

To date some 28 (20 FET College and eight university) students are currently at various stages of their bursary studies with 140 students being supported to complete various National Certificates (learnerships).

## Corporate social investment

CSI spend has also been a key focus of our social responsibility programme with an investment of approximately R2 million for FY18 (FY17: R1.4 million). The total community upliftment investment for the period is approximately R1.3 million (FY17: R6.8 million). The company will maintain or improve the percentage spend in relation to its profitability or revenue growth going forward.

Projects initiated or completed include:

- A bakery
- Housing
- Sewing business (premises, equipment and orders)
- Major road upgrade and maintenance
- Water supplies

In addition Wescoal ensures that the local communities around the mining areas reap the benefits of a safer and more accessible road access by maintaining road infrastructure to a safe standard.

## Local economic development

Wescoal is actively engaged in driving LED projects as part of our social commitment. The focus is on supporting and developing SMMEs around the various mining areas in which we operate. The group has identified community projects which in due course should function independently and be economically self-sufficient. The aim is to encourage a culture of self-reliance and resourcefulness in order to develop the economic viability of the people in the community. A challenge that exists within LED, in our view, is the establishment of entrepreneurial engagements that create new markets, which are specific to the social and economic circumstance of the broader geography in which we operate. A further challenge is being able to reliably forecast the production possibilities within the region to align our contribution to positioning active participation.

Housing development is a priority for the immediate communities that are affected by mining activities. The Intibane project consisting of 18 houses sees a process in which local people have been trained with the necessary skills to complete the project themselves.

Wescoal actively pursues opportunities to develop local SMMEs to provide services to the mining operations. One such initiative at the Elandspruit mine entails the total outsourcing of the laundry services.

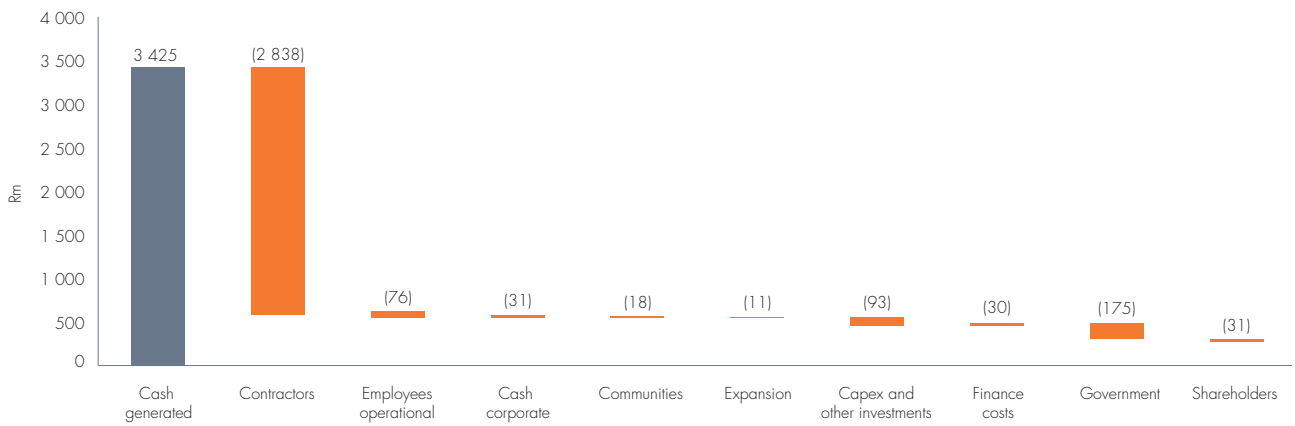
External stakeholder relations are of key importance to Wescoal as its LED programmes are at the core of community engagement. Misperceptions around the level of deliverables of the LEDs may cause social disruptions and demonstrations. It is therefore of importance that social engagements and LEDs which flow from a five-year SLP are sustainable and sufficient. To this end, the group has begun to measure the long-term sustainability of its LED programmes.

As a result of Wescoal's interventions and assistance one of the enterprise and supplier development beneficiaries has employed three new staff members and will remain a beneficiary for the coming year.

Wescoal remains committed to migrating local SMMEs to become providers of services within our core activity value chain. In the previous year we reported that we had engaged the services of Raizcorp to assist with LED and supplier development initiatives. Going forward Wescoal has taken the decision to insource the LED and supplier development initiatives using the platform provided by Raizcorp as a frame of reference. The intent is to enhance the cooperative intimacy of the LED programme with our LED community representatives in conceptualising, formulating, planning and execution of enterprise and supplier development initiatives going forward.

Local economic development within the enterprise development space was approximately R2.1 million.

**Value distribution**



# ACCOUNTABILITY

# CORPORATE GOVERNANCE

## ETHICAL LEADERSHIP

We endeavour to uphold the highest standards of ethics, transparency and good governance in the interests of all stakeholders and adopt stringent compliance practices. The board is the ultimate guardian of the group's governance, ethics and values and is supported in this regard by the social and ethics committee. The board supports the principles of the Code of Corporate Practices and Conduct contained in King IV.

Wescoal materially complies with the principles of King IV and our application is set out in detail on our website www.wescoal.com. All committee charters have been reviewed and updated in terms of King IV.

A formal Code of Ethics and policy on bribery and anti-corruption are in place to which all employees are required to adhere. In addition a standard protocol for declaration of gifts to management is implemented in line with a formal gifts policy. There were no contraventions of the Code or policies during the year.

### Whistleblowing policy

Wescoal creates a climate of opportunity for all stakeholders to voice genuinely held concerns about behaviour, decisions or actions they perceive to be unethical. Stakeholders are encouraged to follow the whistleblower policy which sets out a procedure for them to raise these concerns in a suitable, confidential manner. Every effort will be made to protect the anonymity of those voicing concerns where appropriate. Details of the whistleblower policy can be found on the group intranet site or the Wescoal website www.wescoal.com

## GOVERNANCE STRUCTURE

At 31 March 2018

**WESCOAL**

**BOARD**

Robinson Ramaite# *(Chairman)*
Waheed Sulaiman *(CEO)*
Izak van der Walt* *(Incoming CFO)*
Thivha Tshithavhane *(CEO Mining)*
Cecil Maswanganyi# ~
Eric Mzimela# ~
Humphrey Mathe^
Kabela Maroga^
Kosie Pansegrouw#
Teresita van Gaalen^ *(Lead independent)*

| Committee | AUDIT, RISK AND COMPLIANCE | REMUNERATION AND NOMINATION | SOCIAL AND ETHICS | PROJECT AND INVESTMENTS |
|---|---|---|---|---|
| | *See page 95 for full report* | *See pages 51 and 56 for full report* | *See page 58 for full report* | |
| Members | Kabela Maroga^ *(Chair)*<br>Teresita van Gaalen^<br>Kosie Pansegrouw^ | Teresita van Gaalen^ *(Chair)*<br>Humphrey Mathe^<br>Kosie Pansegrouw^ | Humphrey Mathe^ *(Chair)*<br>Waheed Sulaiman<br>Thivha Tshithavhane<br>Michael Berry *(CEO Trading)* | Waheed Sulaiman *(Chair)*<br>Humphrey Mathe^<br>Kabela Maroga^ |
| Independent | 3/3 | 3/3 | 1/3 | 2/3 |

** Appointed 1 September 2017.*
*^ Independent non-executive.*
*~ Appointed 17 November 2017.*
*# Non-executive.*

## Subsidiary boards

### Wescoal Mining board of directors

- Nthabiseng Mbekeni
- Izak van der Walt
- Bongani Hlophe
- Thivha Tshithavhane *(CEO)*

### Wescoal Trading board of directors

- Waheed Sulaiman
- Bongani Hlophe
- Michael Berry *(CEO)*

### Keaton Mining board of directors

- Waheed Sulaiman
- Thivha Tshithavhane *(CEO)*
- Izak van der Walt

Board and committee meeting attendance

| Director | Board meetings (3 meetings) | Special board meetings (10 meetings) | Social and ethics committee meetings (2 meetings) | Remuneration and nomination committee meetings (6 meetings) | Special remuneration and nomination committee meetings (5 meetings) | Audit, risk and compliance committee meetings (4 meetings) | Special audit, risk and compliance committee meetings (2 meetings) |
|---|---|---|---|---|---|---|---|
| Robinson Ramaite# *(Chairman)* | 3 | 8 | – | – | – | – | – |
| Waheed Sulaiman *(CEO)* | 3 | 10 | 2 | 4 | 3 | 3 | 1 |
| Izak van der Walt* *(Incoming CFO)* | 3 | 8 | – | 2 | 1 | 4 | 2 |
| Bothwell Mazarura** *(Outgoing CFO)* | 2 | 4 | – | 1 | 2 | 2 | – |
| Cecil Maswanganyi#~ | – | 3 | – | 1 | – | – | – |
| Eric Mzimela#~ | – | 3 | – | – | – | – | – |
| Humphrey Mathe^ | 3 | 9 | 2 | 4 | 4 | – | – |
| Kabela Maroga^ | 3 | 10 | – | 1 | 1 | 4 | 2 |
| Kosie Pansegrouw^ | 3 | 6 | – | 5 | 4 | 3 | 2 |
| Teresita van Gaalen^ *(Lead independent)* | 3 | 10 | – | 6 | 5 | 4 | 2 |
| Thivha Tshithavhane *(CEO Mining)* | 3 | 9 | – | – | – | – | – |

** Appointed 1 September 2017.* *** Resigned 31 August 2017.* *~ Appointed 17 November 2017.*
*^ Independent non-executive.* *# Non-executive.*

The executive underwent an intensive 100-day coaching programme with a competent chartered director to assist in positioning the executive to rank accordingly with the best in market directorship talent. This is important due to the fact that the company's subsidiary boards are made up of the executive and senior management to advance the opportunity for cross-functional exposure and hone the leadership behavioural competencies required. A focus for the FY19 period will be formal assessment of leadership potential within this cohort to inform practical succession planning processes.

## THE BOARD

At year-end the board comprised three executive directors and seven non-executive directors, of whom three are independent. The non-executive directors are free to make their own decisions and judgements, benefits or remuneration from the company consist of specified fees, potential capital gains and dividends on their interests in ordinary shares. The non-executive directors are high-calibre professionals and sufficient in number for their views to carry significant weight in the board's deliberations and decisions. The guidelines contained in the Listings Requirements of the JSE were used to test the category most applicable to each director.

The non-executive chairperson, who is not independent, is Robinson Ramaite. The board delegates its responsibility for ensuring the effectiveness of governance practices to the chairperson. He leads the board and is responsible for representing the board to shareholders. As required in terms of the Listings Requirements of the JSE, the role of the chairperson is separate from that of the chief executive officer. Teresita van Gaalen has been appointed as the lead independent director.

A formal board charter is in place. The charter will be reviewed during the year and a revised charter has been circulated to the board for approval.

See page 56 in the nomination committee report for further detail on board composition.

## THE INDEPENDENT BOARD

The independent board ("IB") is positioned by the board to preside over corporate activities for good governance and where necessary to preside when any possible conflict of interest may exist and regulations call for an independent governing body. It comprises independent non-executive directors who are not shareholders and who are not affiliated with the executives of the firm, directors who have no business dealings with the company.

The IB is expected to provide vigilant oversight to mitigate risk and to promote shareholder value. The IB also oversees board responsibilities in areas such as mergers and acquisitions when independence is required.

The IB is comprised of independent non-executive directors; Teresita van Gaalen (LID), Kabela Maroga (CA)SA and Dr Humphrey Mathe (PhD) FGSSA.

## GENDER AND RACIAL DIVERSITY

Wescoal supports the principles and aims of gender and racial diversity at board level. Two separate policies dealing with racial and gender diversity on the board, specifically, were approved in the period. The policies place a voluntary obligation on the board to give consideration to the appointment of female and black directors so as to attain and maintain a level of gender and racial diversity within the board.

Eighty percent of the directors are black which is in line with the stated policy target of 50% of the board members being black. Twenty percent of the directors are female.

The remuneration and nomination committee reviews the gender and racial diversity targets and fulfilment thereof annually. The social and ethics committee further assists in ensuring that employment policies are in place, adhered to and reported on in achieving the employment targets as set in the labour plans.

## SELF-EVALUATION

The board did not conduct a self-evaluation during the year. A self-evaluation will be concluded in FY19.

## SUCCESSION PLANNING

The remuneration and nomination committee is responsible for ensuring adequate succession planning for directors and management, and that all committees are appropriately constituted and chaired. The board is satisfied that the depth of skills of current directors meets succession requirements.

No formal induction programme is in place; however new directors are exposed to induction by the human resources department and the company secretary. All directors also attend annual training in directors' duties.

## COMPANY SECRETARY

Vikesh Dhanooklal was the appointed company secretary since 23 November 2015. The company secretary is responsible for monitoring changes and developments in corporate governance and, together with the executive directors, for keeping the board updated in this regard.

The board is satisfied that the company secretary is suitably qualified, competent and experienced to provide guidance in matters relating to governance and that all directors have access to the company secretary. The company secretary is not a director of the company. Subsequent to year-end, the company secretary resigned effective from 30 September 2018 and a replacement will be announced in due course.

## SHARE DEALINGS AND CONFLICTS OF INTEREST

All directors and senior executives with access to financial and any other price-sensitive information are prohibited from dealing in Wescoal shares during "closed periods", as defined by the JSE, or while the company is trading under cautionary. A formal communication is distributed company-wide informing all employees and directors when the company is entering a closed period.

At all other times directors are required to obtain clearance to deal in the company's securities from the chief executive officer. The company secretary, together with the sponsor, ensures that directors' share dealings are published on SENS.

A policy exists which regulates share dealings by directors, prescribed officers and employees.

## LEGAL COMPLIANCE

The board is ultimately responsible for ensuring compliance with laws and regulations. New legislation that impacts the group is made available to the board members and discussed as required.

No fines or non-monetary sanctions were imposed on the group for non-compliance with any laws or regulations during the year under review, nor has the group been party to any legal actions for anti-competitive behaviour or anti-trust.

## IT GOVERNANCE

The audit, risk and compliance committee is responsible for IT governance on behalf of the board and reviews the reports from management and external assurance providers to ensure that an adequate and effective IT system is maintained. The CFO oversees the function and IT manager responsible for reliable and secure information technology systems, networks and applications to ensure uninterrupted business processes maximise operational efficiency. The corporate strategy is supported and embedded in the framework and strategy of IT policies and procedures.

During the year Wescoal implemented a number of improvement initiatives to network security, firewalls and other measures of reliability improvements and protection against cyberattacks and crime in general. Wescoal also implemented an Integrated Enterprise Risk Management system for the enlarged mining business during the year and the disaster recovery plan includes redundancy network facilities and hosted services.

# RISK MANAGEMENT

Our business philosophy is underpinned by integrating and embedding cost-effective implementation of internal control and enterprise risk management processes at all levels within the company. Continuous review ensures appropriate governance to sustainably grow the business and enhance shareholder value.

## ENTERPRISE RISK MANAGEMENT POLICY

The overall principle of our policy and philosophy is that the management of risk is the responsibility of management at every level in Wescoal. It forms an integral part of the process of managing resources and opportunities within appropriate risk appetite in order to provide reasonable assurance for the achievement of our objectives.

Wescoal's board oversees appropriate risk management through the audit, risk and compliance committee and delegates responsibility to executive management to implement and execute effective risk management. Investments, acquisitions and major development projects are overseen by the project investment committee constituted by the board for oversight by independent non-executive directors.

The board has further committed Wescoal to a process of risk management and to sound and effective systems of internal control. These are aligned with the principles of King IV and comply with the Companies Act and all relevant codes, legislation and regulations. The objective of these systems and processes is managing, optimising and/or minimising short-, medium- and long-term risk and opportunities at all Wescoal operations.

Wescoal submits all subsidiaries, strategic alliances, strategic and functional areas, business units, operations, projects and processes to the enterprise risk management policy and framework.

## THE RISK MANAGEMENT PROCESS

Our annual risk management plan is approved by the audit, risk and compliance committee, executed by the Wescoal chief financial officer in collaboration with management and monitored by the management committee and quarterly audit, risk and compliance committee meetings. This plan ensures the implementation of the enterprise-wide risk management process throughout the organisation.

Wescoal's enterprise risk management process uses a unitary framework of identification and quantification of risks at all levels within the organisation. To meet and exceed Wescoal's risk management standards, we continuously measure and monitor the effectiveness of the risk mitigation and control initiatives.

Wescoal's risk appetite and its propensity to assume appropriate levels of risk for the business objectives and to limit exposure to maximum potential loss that the company has the capacity to tolerate, is assessed on a continuous basis.

Wescoal's enterprise risk management process is designed to achieve an ongoing improvement of its risk preparedness and effective corporate governance. Wescoal's risk profile requires that we adopt a prudent approach to corporate risk. We evaluate and agree the nature and extent of the risks that Wescoal is willing to pursue to achieve strategic objectives based on the approved risk tolerance and risk mitigation criteria.

We select controls, mitigating risk treatment actions and risk interventions, based on their potential to increase the likelihood of Wescoal fulfilling its stakeholder commitments. Sound management of business risks provides us with the flexibility to anticipate and respond to changes in our business environment and make informed decisions in uncertain times.

To ensure Wescoal's responses to risk remain current and dynamic we continue to embed our enterprise risk management and internal control processes in our business systems and processes.

## INTERNAL CONTROL

As part of the overall management of risk, management has implemented a system of internal control. The internal control system provides the board of directors with reasonable assurance that the business is operated consistently with:

- the strategy as determined by the board of directors;
- the business objectives;
- the policies and processes; and
- the laws and regulations that apply to the company.

The system aims to detect and prevent any significant risk from materialising and to mitigate potential adverse consequences.

The board is supported by the control functions within Wescoal, which include the internal audit and enterprise risk management functions. The functions are reviewed regularly as agreed with the board of directors.

## PRIMARY RISKS OF MOST SIGNIFICANCE

Wescoal undertakes regular assessments of risks on a quarterly basis throughout the business covering all management areas and functions. In order to make informed decisions and take appropriate action, Wescoal identifies the issues material to the sustainability of the business. We determine these issues at board, executive and operational levels by considering financial and non-financial information, driving and influencing the company's growth and sustainability and their possible impact on Wescoal and its stakeholders.

The risk assessments and mitigation initiatives are consolidated into a uniform and integrated risk management approach. The outcomes of these risk reviews are subject to scrutiny by management and the audit, risk and compliance committee.

Wescoal's risk management framework includes the assessment of business processes related to specific risks and where appropriate to perform detailed risk reviews on business processes or functions. These reviews enhance management's ability to manage the risk and to provide assurance.

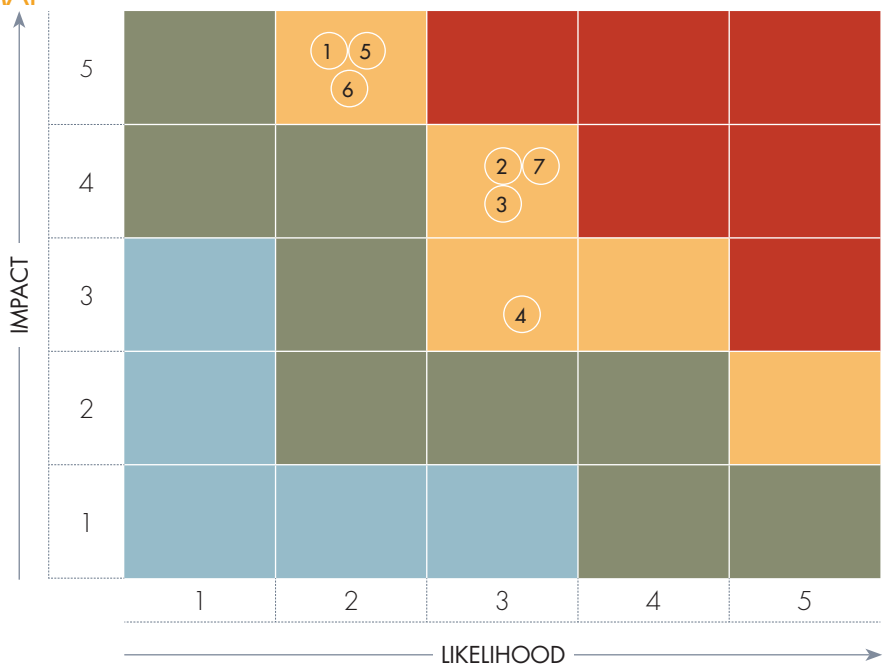
The key risks which will continue to receive management attention are:

| Risk | Comment |
|---|---|
| HDSA ownership drops below Eskom requirement | One of Wescoal's key strategic objectives is to be the leading HDSA-controlled mining entity. It is also a key requirement for our main customer, Eskom, for other offtake agreements and for the Mining Charter of the Department of Mineral Resources, a critical stakeholder of the business.<br><br>Wescoal has achieved the HDSA ownership targets and the potential of this risk to hinder our growth and other goals has significantly reduced but will remain an ongoing area of focus.<br><br>Wescoal is certified as a level 2 BEE contributor. |
| Funding and capital structure | The optimisation of Wescoal's funding and capital structure is key to it successfully implementing and concluding a range of organic growth projects and to pursue inorganic growth options.<br><br>During FY18 Wescoal raised R176 million cash though equity investment and committed R354 million cash for the Keaton acquisition. Wescoal also secured R440 million funding via structured long-term facilities with Nedbank, enabling consolidation and optimisation of various debt instruments which significantly strengthened the group's liquidity and overall balance sheet position.<br><br>Wescoal group's gearing ratio increased to 30% (FY17: 27%) following the Keaton acquisition.<br><br>Supported by the efficiency and stability of operations, improved financial performance, liquidity and balance sheet gearing of the enlarged Wescoal group, the beneficial long-term funding structure is being advanced at present. |
| Concentration of sales to one main customer (narrow revenue base) | Wescoal Mining's primary product is Eskom grade coal and there is a natural tendency to have a large part of the business exposed to one client. The Trading division assists to diversify the client base.<br><br>The group's continued focus on the development of non-Eskom based revenue streams, broadening the customer base and revenue generation activities in both local and export markets, resulted in 47% of the enlarged Wescoal group's revenue being from Eskom. |
| Criminality: fraud and theft from depots and mines | Wescoal is exposed to crimes related to theft of assets and potential acts of fraud. The business's approach includes an outsourced independent anti-fraud hotline and improved security measures, inventory controls and policies to address these exposures. |
| Keaton transaction: failure to deliver anticipated value | The integration programme personnel redeployments and overhead reductions are complete and key technical and mining skills have been retained. Various improvement and efficiency projects are being implemented in a measured fashion. These projects represent low-risk value enhancement opportunities and support the group's philosophy around standardisation and scalability. Operational and financial performance from the Keaton business units is in line with expectations.<br><br>The enlarged group has coal resources of 300 million tonnes, four operating mines, four processing plants and significant interests in coal supply chain infrastructure. This translates into additional revenue certainty and diversification through production of a range of coal qualities, mining and washing/processing options, customer and sales strategies across domestic and export markets, as well as optionality in contracts and off-take negotiations. |

| Risk | Comment |
|---|---|
| Community unrest | We continue to build and sustain our relationships with our key stakeholder communities. Implementation of Wescoal's strategy includes the tracking and monitoring of delivery against key stakeholder commitment and local requirements.<br>This encourages the promotion of beneficial relationships with our stakeholder communities at all our operations.<br><br>We undertake regular engagement of key stakeholders including with government, regulators, trade unions, community forums, media, NGOs and communities. |
| Changes and uncertainty in regulatory environment | Compliance to and implementation of changes in the regulatory landscape is the focus of a multi-disciplinary compliance programme. Appropriate systems, processes and procedures ensure compliance with applicable laws and other governance and best practice requirements, including King IV and the Mining Charter.<br><br>Wescoal actively prioritises and enables management to comply with applicable legal requirements and improve our overall environmental performance and we remain committed to:<br>• implementing committed environmental roadmaps and offsets;<br>• continued engagements with government departments on policy issues and challenges;<br>• developing and implementing measures to improve our energy conservation and greenhouse gas emissions; and<br>• proactive and appropriate disclosure of challenges faced.<br><br>The board guides the approach and oversees compliance through appropriate policies and procedures. |

## RISK MANAGEMENT HEAT MAP

1. HDSA ownership drops below Eskom requirement
2. Concentration of sales to one main customer
3. Community unrest
4. Criminality: fraud and theft from depots and mines
5. Funding and capital structure
6. Changes and uncertainty in regulatory environment
7. Keaton transaction: failure to deliver anticipated value



# REMUNERATION REPORT

FY18 marks Year III of the Wescoal transformation, driven by the board's vision for a new Wescoal. This was a year of focus on fundamental change and organisational renewal, specifically given the recent acquisition of Keaton Energy in June 2017.

## BACKGROUND STATEMENT

The board and executive team have continued to drive group strategy and performance with a key focus on the deployment and retention of the appropriate skills to provide the much required capacity for strategy execution.

The Performance Management Programme ("PMP") and Evaluation infrastructure implemented in the FY17 period has proven to yield positive thrust toward embedding a mission-directed executive and management team. This is in an effort to be able to benchmark Wescoal talent to the best in industry, specifically in terms of direction through focused articulation of strategy and actual talent through direct correlation of effort to results.

The remuneration and nomination committee remains committed to ensuring the approach to remuneration is fair, responsible and transparent throughout the organisation. This is in keeping with the principles of King IV.

The culture of "peak-to-peak' performance remains a core output of the PMP.

Together, the board and the executive team are committed to stakeholder value creation – value creation that is underpinned by continuous business improvement methods to increased overall efficiencies.

## Leadership direction

The importance of a mission-directed executive cohort remains the constant focus of the company's executive development initiatives. Ensuring that the company is led by a young executive team that is in tune with the principles of 21st century leadership wisdom and fortitude is core to our coaching and mentorship. The credibility of our leadership's market presence and stature presents a forward-looking journey in the evolution of the company.

Key outcomes of the committee's engagement with the executive are:

- to oversee and monitor organisation-wide management of remuneration practices in support of business objectives and policies;
- to facilitate the retention of a competent and capable executive and senior management team;
- to embed a mission-directed culture in the organisation, driven from the top;
- to position the company to appropriate talent and use remuneration to establish and retain a valuable competitive positioning in the markets in which it competes; and
- facilitating alignment of purpose between the executive and shareholders through the design and implementation of effective variable reward schemes.

The realisation that the company exists in a mature market and that the lifecycle of the markets in which we compete is heading towards a revival demands an invigorated approach to strategy, using top talent to execute.

## Key activities

### Performance management

*Measurement criteria:*

The group subscribes to a formal performance management and evaluation system. The performance management criteria in the period fall within the following key performance areas that are aligned to our balanced scorecard:

- Financial measures (NPAT, cost management, shareholder return);
- Stakeholder engagement measures (regulators, communities, customers);
- Operational efficiency (safety, production, process efficiency);
- Governance risk, and compliance measures (enterprise wide risk management, compliance);
- Business reporting (business intelligence);
- Business development measures (market share growth, business process improvement);
- Human resources development measures (skills development and performance management); and
- Transformation ("B-BBEE") outcomes ("B-BBEE Code outcomes").

The PMP process was in its second year of implementation for all senior staff between Paterson bands D4 and F2. In terms of the PMP cycle the mid-year review in September of each year was conducted successfully with a keen effort to ensure that it has a correlation to mid-year financial outputs.

### Annual salary adjustment

The company awarded a 7% increase pool for the salary increases in 2017 with an 8% budget being approved for FY18 year. The company remains committed to ensuring that its lowest paid employees earn above the minimum thresholds as prescribed by sectorial determinations or other relevant prescripts that apply to us. Every effort is made to ensure that salary adjustments position all remuneration well within levels responding effectively to economic variables that inform inflation volatilities. Current and forecast inflation is a key reference point for the company's increases.

The company has officially adopted a remuneration approach that places value on internal equity (payment within the salary ranges) and market benchmarks (comparison to the fiftieth percentile) as points of reference for all salary adjustments, which was done for the 2018 increase.

### Use of remuneration advisers

The remuneration and nomination committee received advice from 21st Century for variable executive reward and benchmarks and PwC for variable reward and beneficiaries during the year, in terms of the evaluation of the board. They are satisfied that the advice received was objective and independent.

## Voting results

At the annual general meeting on 14 November 2017, the non-binding advisory vote on the company's remuneration policy received a 93% vote in support of the policy.

# REMUNERATION GOVERNANCE

## Committee's role

The remuneration and nomination committee is constituted as a committee of the board . The duties and responsibilities of the committee are in addition to those duties and responsibilities that the committee members have as members of the board. The committee has an independent role with accountability to the board and shareholders.

The committee provides reasonable assurance to the board that the remuneration of executives and prescribed officers is market referenced and competitive, the disclosure is accurate and transparent, and that the company's remuneration is comparable to sector comparators in terms of being a percentage of operating cost. The broader terms of reference of the remuneration and nomination committee are outlined in the committee's charter.

From the perspective of good governance the board determines the remuneration of directors and executives based on recommendations made by the committee, taking into consideration market conditions, expert advice from remuneration specialists and in accordance with a remuneration structure and policy approved by the board which has been disseminated to shareholders.

## Members of the committee

The committee consists of at least three members of the board, with a quorum being two members. The members are independent non-executive directors being more than the required majority recommended by King IV. The committee held three ordinary meetings and four special meetings in the period as reported in the attendance table on page 46. The group chief executive and the head of human resources attend meetings by invitation to provide the relevant assistance, insights and consultation in line with the committee's mandate.

Main focus areas of the committee have been the following:

- Annual self-assessment of the committee's performance and efficacy in its mandate;

- Cross-committee collaboration for alignment and ethical leadership with the audit, risk and compliance committee and the social and ethics committee on an ongoing basis;
- Judicious management to ensure optimum functioning while planning board size and composition post acquisition period;
- Progressing of the non-executive director candidate recruitment plan;
- Performance management executive implementation and performance monitoring through a cross-committee review panel;
- Co-ordination of the performance review panel for evaluation of CEO and executive;
- Design of the Long-Term Incentive Scheme ("LTI") and applicable performance measures;
- Succession planning and executive recruitment to support strategy;
- Engaging governance compatibilities in the role of the social and ethics committee regarding executive reward; and
- Approval and recommendation of the remuneration report.

## REMUNERATION POLICY

Wescoal's remuneration approach reinforces our belief in efficiently mining, processing and selling coal and related products, safely and responsibly. The company's remuneration practice is to position guaranteed pay within a specific range of the market fiftieth percentile and to also refer to the internal salary mid-point for internal policy benchmarking. The company's internal salary ranges, advised on by an independent remuneration advisor, PwC Remchannel, take into consideration the coal mining industry and all national industries in terms of reference for specific mining and non-mining occupations.

The company considers its profile first and foremost as a listed entity, then as both a coal mining company and a coal trading company in its market benchmarking approach via the coal mining market and the national (all industries) market as comparators.

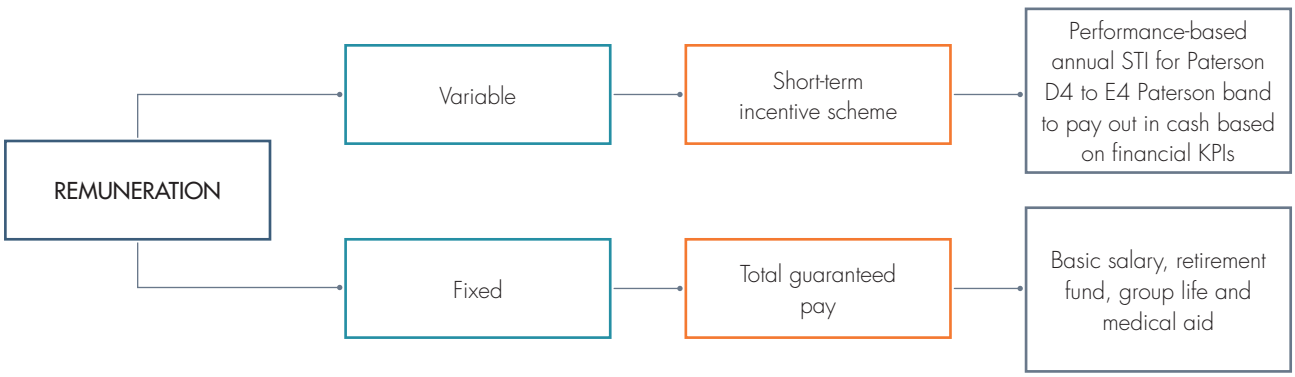
A full copy of the remuneration policy is available on the website http://www.wescoal.com/governance-polices/remuneration-policy/

## Key principles of the remuneration policy

- To attract and retain the best available talent
- To encourage a "peak-to-peak" performance culture to drive shareholder value
- To be market competitive
- The premise that employees must share in the sustainable good fortunes of the company
- Take into account sector benchmarking
- Sustainable remuneration practices
- Remuneration of executive directors and prescribed officers

The board approved a Short-Term Incentive Scheme ("STI") open to senior management and executives only for the period under review. The scheme principles and rules remain the same as in the FY17 year.

The profile below illustrates the remuneration mix of executive directors and prescribed officers, including the senior management cohort who are mostly at and above Paterson level D4.

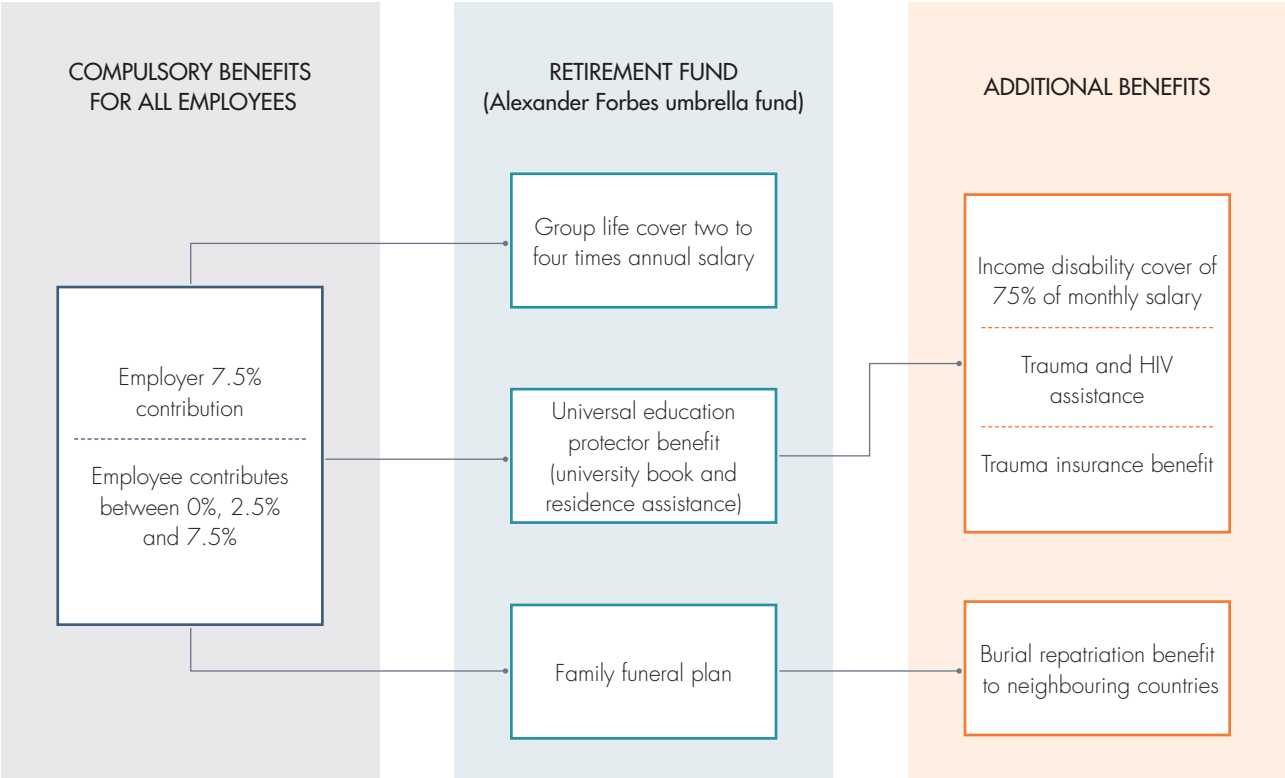



## Total guaranteed pay ("TGP")

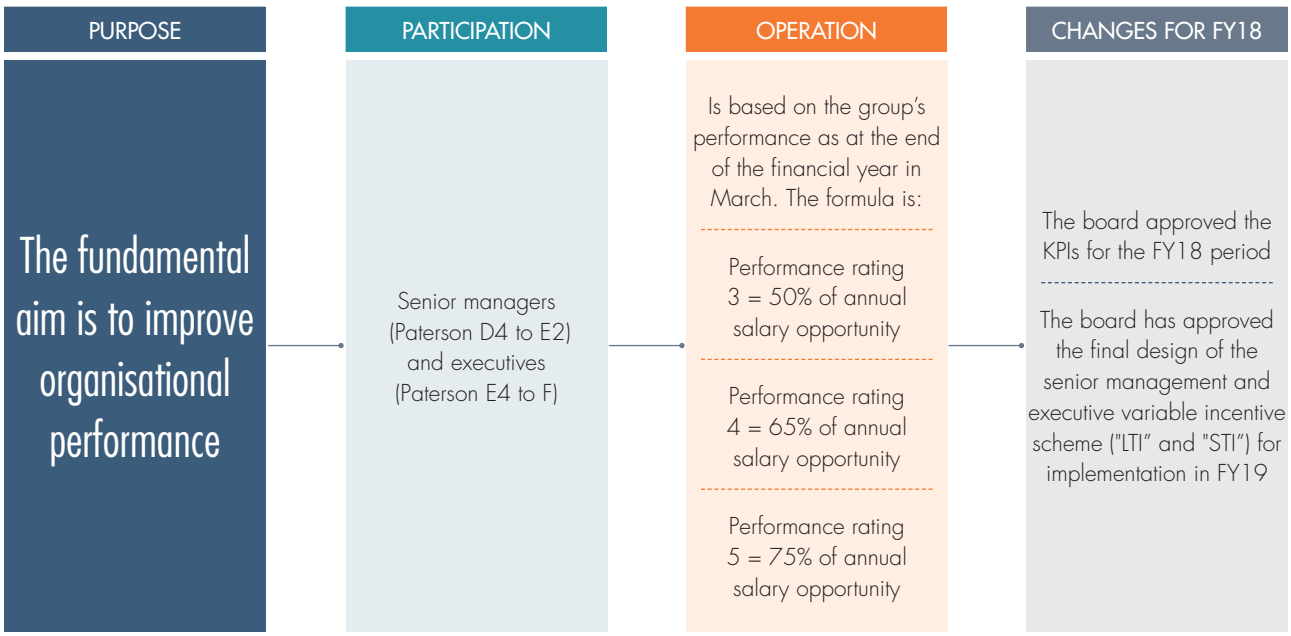
The company endeavours to pay fixed remuneration at the median or the fiftieth percentile ("P50") of its relevant benchmark circle of companies. Although it may not pay on target at all material times, the company conducts an annual benchmarking to assess the relative positioning of salaries against the median applicable to each job grade of level, especially at the level of executive directors and prescribed officers and senior management. The information from the benchmarking conducted in the period under review will inform the amendment of the company's medium-term remuneration strategy.

## TGP BENEFITS

The table below illustrates the benefits portion of the TGP.




The senior management and executive short-term incentive scheme is in the second year of implementation. The figure below outlines the key design elements thereof:



## CONTRACTS, SEVERANCE AND TERMINATION

Executive directors and prescribed officers have employment contracts which include notice periods of a minimum 30 days. There are no balloon payments on termination, automatic entitlement to bonuses or automatic entitlement to share-based payments other than in terms of the company's approved share options incentive trust rules.

## APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Non-executive directors appointed in the year are subject to election by shareholders at the first annual general meeting following their appointment after which they retire in accordance with the board rotation plan.

## APRIL 2018 TGP ANNUAL SALARY ADJUSTMENT

All staff in the company approved an average 8% increase to TGP with 6% to be implemented in April 2018 and the additional 2% in September 2018 to address the lowest paid earners and further close the wage gap. Executives and senior management received an average 5% increase.

## WESCOAL SHARE INCENTIVE TRUST

The trust is currently being wound down and will not be issuing any shares. It is intended to replace the trust with a long-term phantom share scheme applicable to executives in its first cycle of implementation.

## IMPLEMENTATION OF POLICIES FOR THE REVIEW PERIOD

### Summary of remuneration activities/ decisions for the year

The main issues considered and approved by the committee in the period under review:

- Approval of the remuneration work plan for 2018
- Review of remuneration policy
- Approval of remuneration report
- Review of shareholder feedback following annual general meeting
- Annual salary review for employees and executives
- Approval of balanced scorecard KPIs (key performance indicators)
- Approval of short-term incentive targets for executives and senior managers
- Appointment of a group head of information technology, the transitioning of the chief executive officer designate of the mining company into the role effective April 2017
- Review of fees payable to non-executive directors
- Implementation of a performance management programme
- Design of a variable pay scheme for executives and senior managers for implementation in FY19

## IMPLEMENTATION REPORT

The implementation report with directors' and prescribed officers' remuneration and share options as well as non-executive directors' fees are disclosed in the annual financial statements on pages 162 and 163.

# NOMINATION COMMITTEE REPORT

The consolidation of the nomination committee with the remuneration committee under one banner secures higher frequency and processing efficiencies through greater, interactive consultation on the matters of the nomination committee and focus which adds expediency.

## FUNCTIONS ALONGSIDE THE REMUNERATION COMMITTEE

During the year the board increased its size with the appointment of two additional members, Messrs Mzimela and Maswanganyi, who both bring extensive experience and further strengthen the skills profile of the board.

The remuneration and nomination committee has placed a special focus on succession planning at the executive level, in this period. The importance of effective succession planning is underpinned by the fixed-term deployment regime for some key senior executive roles such as the chief executive officer and the chief financial officer, who are all on three-year deployments. It is a realisation that this period may not be sufficient to allow for a solid track record, however it is being used as a platform to align further deployment to a focused and competitive position-focused medium-term strategy, which should be in place in FY19. This aligns to a deliberate and strategy execution-focused deployment of leadership.

## THE ROLE OF THE COMMITTEE

The committee exists to assist the board in the effective discharge of its responsibility to ensure that the board has the right composition, size, skills set and experience and represents the appropriate diversity of people in gender, age, experience. It therefore comprises people with broad knowledge and a range of independent, varied and informed views is provided. The directors have appropriate backgrounds for the task as well as the level of commitment that is required.

The responsibilities of the committee extend to the election and installation of new directors, director re-election and the recruitment of key members of the executive management team to ensure the necessary skills and experience are in place to direct the company in the successful execution of its strategy.

## ELECTION OF DIRECTORS

A rigorous selection process leads to the appointment of all directors by the board and their recommendation by the nomination committee:

- Identification of a vacancy and profiling of the requirements
- Recruitment of candidates
- Selection process and fit of candidates to a short list based on a predetermined matrix in an open and transparent process
- Interviews
- Final recommendation to the board

The performance of each director, the board and each committee is reviewed annually as part of the board evaluation process. The findings lead to the recommendation of election and re-election of all directors who are standing for re-election at the group's annual general meeting.

Focus on gender and race diversity that is representative throughout all levels of the business, operations and including the board has been set as the short- to medium-term imperative while ensuring transparency in the process.

## KEY ACTIVITIES

The nomination policy calls for a bi-annual board self-assessment process which is guided by an independent, JSE accredited body to ensure it measures effectiveness across key areas such as good corporate governance, the discharging of the board's responsibilities and strategy in human capital management and the specific work of the committee in measuring the balance of the composition and skills set of the board against strategic imperatives.

The acquisition of Keaton Energy within this period is a significant milestone towards achieving synergies, most particularly in the people capacity space. Keaton Energy brings with it some core technical skills that were previously outsourced within Wescoal.

## Executive and board age profiles


The important focus for the committee has been to ensure that the integration risks associated with a merger of this kind are effectively managed. The committee engaged and approved a formal integration plan.

The people analytics capabilities of the organisation are prioritised for the FY19 period in order to enhance the data-centric insights we require to make talent decisions. The age profile of the senior leadership team remains unchanged at 46 years. This gives the assurance that collectively the intellectual fortitude of the executive cohort bridges effectively between generational norms that often pose age-related diversity challenges. The gender profile of the leadership team remains an important aspect of succession planning and talent acquisition, given that the executive cohort remains 100% male, of which 66% is black (i.e. Indian and African). The executive and board age profiles are outlined in the figures above.

The committee endorsed, for board approval, the implementation of two separate racial and gender diversity policies applicable to the board. These two instruments are in compliance to section 38 (J and k) of the JSE Listings Requirements. The racial and gender policies of the board are illustrated below:

The committee must ensure:

- it has adequate plans for the succession of its members, including the group chief executive officer and the executive team; and
- it has appropriate selection criteria and the necessary processes for the identification of a diverse range of suitable candidates to become members of the board in keeping with strategy.

Teresita van Gaalen
*Remuneration and nomination committee chairperson*

# SOCIAL AND ETHICS COMMITTEE REPORT

Established in 2014, the committee operates under formal mandate from the board and is guided by its own charter. The committee is chaired by an independent non-executive director and its membership includes other non-executive directors, directors and invited members of the executive. The committee meets twice a year, and its core mandate is to be the ethical conscience of the organisation and to ensure that the appropriate infrastructure is in place to enhance our position as a responsible corporate citizen.

## SOCIAL AND ECONOMIC DEVELOPMENT AND CORPORATE CITIZENSHIP

Good corporate citizenship is a positive and welcome constraint to our business activities and corporate ethos. Our corporate ethos reflects our philosophy and ultimately our core values and reason for being. The key component of the Wescoal business strategy is to be a responsible and accountable corporate citizen that contributes to the economic development of the country. The invested time, monetary and other material resources into our corporate social investment programmes are evidence of our attitude towards responsible corporate citizenship. Amongst Wescoal's key objectives within corporate social responsibility are:

- to advance sustainable development in communities where we have influence;
- to create and enhance the company's reputation as a responsible corporate citizen;
- to strengthen relationships with primary and secondary stakeholders; and
- to attract quality, socially responsible staff to the company as well as retain and enhance the loyalty and pride in the company for existing staff.

Wescoal's commitment to sustainable development is seen in our subscription to the six-capital model of sustainable development, which we have translated into balanced scorecard measurables for senior staff and the executive on our performance management programme.

## ETHICS MANAGEMENT AND CODE OF CONDUCT

Wescoal has an approved code of conduct policy. This code has been distributed to all suppliers of the company. The company has a zero-tolerance approach to unethical behaviour and is committed to ensuring that its employees uphold the company's good reputation. The company strives to operate in accordance with the highest ethical standards and in compliance with all applicable laws. The Code of Conduct covers, amongst others, the following areas:

- Honesty and ethical conduct;
- Conflicts of interest;
- Safety, health and environmental protection
- Compliance with laws, rules and regulations
- Competition and fair dealing
- Unfair competition/anti-trust
- Health and safety of employees
- Legal compliance and business practices
- Respect for the basic rights of employees

The company's corporate social responsibility strategy has further translated into the approval of a human rights code applicable to employees and contractor partners and further translation of our human rights code into the social compliance programme endorsed by the social and ethics committee and ratified by the board for implementation in FY19. We have engaged our contractors on the programme and will be implementing it in FY19.

## IMPLEMENTATION OF WESCOAL'S ETHICS POLICIES

All Wescoal managers are responsible for compliance with and enforcement of Wescoal's Social Responsibility, Ethics, and Human Rights Codes in their areas of operation.

## HEALTH, SAFETY AND ENVIRONMENT

Wescoal's safety, health and environmental performance are covered on pages 39 to 41 in this integrated annual report.

## LEGAL AND STATUTORY LICENCES

Wescoal's Mining division complies with applicable legal and statutory requirements of the relevant regulatory authorities.

Wescoal's Trading division complies with applicable legal and statutory requirements of the relevant regulatory authorities.

Wescoal has put in place a regulatory compliance reference group comprising company executives and senior management from both Trading and Mining businesses, to engage on the compliance landscape of Wescoal in a coordinated manner.

The status of various statutory licences is discussed on page 61 in this integrated annual report.

## BLACK ECONOMIC EMPOWERMENT

Wescoal views its B-BBEE programme as a repositioning of our valuable competitive positioning in the markets in which we compete as a capable and growth-focused enterprise that affirms the good that South Africa represents for all races, especially black enterprise.

Wescoal is committed to broad-based black economic empowerment ("B-BBEE") from both a compliance and a commitment perspective. Our intent is to be actively seen to be migrating from compliance to the B-BEE regulatory landscape to commitment to B-BBEE as an affirmative concept through our growth strategy, ownership profile, operatorship, and enterprise and supplier development initiatives.

Ours is a sustainable B-BBEE model flowing from a sound sustainable development platform. Wescoal is actively working at adequately internally resourcing our transformation planning, formulation and execution capability to deliver on our B-BBEE strategy, which is set for implementation in FY19. The various Wescoal entities have seen marked improvement in the period, with Wescoal Trading being a B-BBEE level 4 contributor, Wescoal Mining at a level 5, and Wescoal Holdings achieving a level 2 ownership level. Wescoal has partnered with the Black Business Council to extend our collaboration network on B-BBEE and transformation much further.

We have submitted our integrated annual report to the BEE Commission.

## EMPLOYMENT AND HUMAN CAPITAL

Wescoal's core philosophy regarding human capital as a sustainability measure is an integrated approach to the management of staff. Wescoal's human resources approach is based on an integrated people practices model which strives to correlate reward, deployment and management, training and development, in a cohesive and reinforcing manner that is directed at full self-actualisation of employees. The individual employment experience of each employee remains a key measure of our employer value proposition. We believe that we are managing internal human capital (internal and external) in trust for broader society and to improve the general human condition of South Africa as far as we possibly can.

## ENTERPRISE AND SKILLS DEVELOPMENT

Wescoal's investment in enterprise development includes providing tangible opportunities to community-based business to provide services to the company on a long-term contractual basis. We have reviewed the depth of need within our immediate communities and have repositioned our enterprise development programme to include a more intimate engagement wherein we have deployed our internal human resources function to facilitate employer- and employee-driven enterprise development initiatives where we actively position staff to contribute to our initiatives by active participation.

The FY19 plan for enterprise development involves the deployment of internal skills towards helping identified enterprise development recipients with regular engagement on important aspects relating to the migration of their enterprises from concept to sustainable venture. This does require an investment in paid time by the company as well as some capital investment. We believe that this is effective in that:

- it establishes and embeds an internal culture of "giving back" or the "thuma mina"("Send me") approach which has been influenced by the State President's stand on civic duty;
- it allows for effective monitoring of our enterprise development projects and manages execution performance internally and externally;
- it allows the company to have multiple options to enterprise development in conjunction with external incubators; and
- it translates into an increased collaboration network between the company, its employees, the recipients and the broader community.

Wescoal remains committed to skills development within the company and externally. The approach to skills development is to:

- ensure strategy execution capabilities exist within the staffing cohort; and
- ensure that external recipients to skills development initiatives are positioned to appropriate market opportunities for employment or enterprise development by translating portable skills to rent-generating activities.

Wescoal has successfully submitted both its skills development plans for 2018 and the annual training reports for 2017 for all its operating entities.

## SUPPLIER DEVELOPMENT

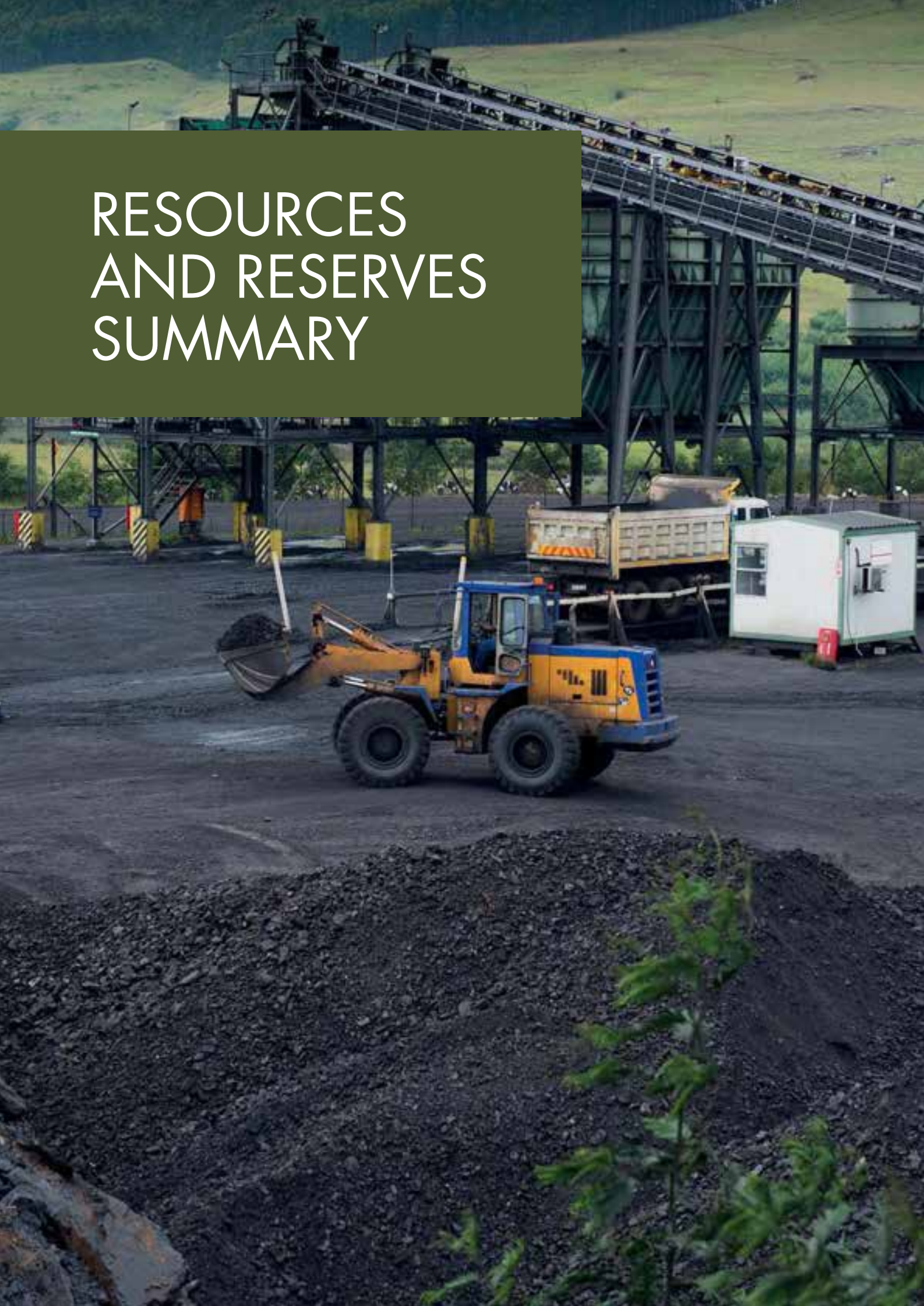
The company remains committed to aligning its supplier profile to its intended B-BBEE profile, which is largely black. Wescoal has been successful at integrating mainly black core activity contractors in the mining space and is continuously reviewing its value chain to identify opportunities to integrate enterprise development beneficiaries into its supply chain. Wescoal also provides opportunity to community-based and locally situated businesses that are appropriately profiled and able black businesses to propose value to it. This enables us to explore synergies and partnerships with potential suppliers who present market entry opportunity or market-repositioning opportunities.

## COMMITTEE ASSURANCE

Wescoal's social and ethics committee is satisfied that it complied with its legal, regulatory, and other responsibilities during the current financial year.

Humphrey Mathe
*Social and ethics committee chairperson*

# RESOURCES AND RESERVES SUMMARY



# RESOURCES AND RESERVES SUMMARY

## PURPOSE

Miptec Proprietary Limited ("Miptec") was commissioned by Wescoal Mining Proprietary Limited and the acquired Keaton Mining Proprietary Limited, wholly owned subsidiaries of Wescoal Holdings Limited, to produce a consolidated Coal Resource and Reserve statement for their Elandspruit, Intibane and Khanyisa Collieries, as well as the newly acquired Keaton assets, namely the Vanggatfontein Colliery, Moabsvelden, Braakfontein and Sterkfontein Project, to meet the JSE Listings Requirements, to reflect the 31 March 2018 Status ("effective date").

## WORK CONDUCTED

No exploration drilling was undertaken on Elandspruit, Intibane or Khanyisa, as confirmed by project geologist Gerhard Mulder of GM Geotechnical Consulting CC ("GM"). As such, the geological models were not updated with new information, only with the surveyed positions of the mined-out faces as at 31 March 2018. The coal resources for these areas were updated by Katherine Black (BSc (Hons)), Pr.Sci.Nat, of KJB GeoServices ("KJB") based on the 2017 geological models net of depletion. The reserves for these assets were estimated by Miptec in the scheduling models net of depletion as at 31 March 2018, following the parameters as stipulated in the 2017 reports.

The drilling of 16 fully cored boreholes was conducted within the Vanggatfontein licence, focusing on the Western Resource Area (VG6) as well as Pit5 (VG5) in the Eastern Resource Block, located to the south of the Transnet pipeline. The Vanggatfontein geological model was updated by KJB to include both the physical and quality information from this drilling programme as well as the surveyed positions of the mined-out faces. The resource estimations included in this report are based on this model. Miptec updated the mining model with the newly updated geological grids, for the Vanggatfontein budget schedule and consequent reserve estimation as at 31 March 2018.

On Moabsvelden, three geotechnical holes were drilled as part of an Underground Mine Option Study. An underground geological model was constructed by KJB, inclusive of the information acquired from the three geotechnical holes – however to date, Moabsvelden remains an opencast project, with resources estimated in 2016 by Mr K Dippenaar, an employee of GEMECS. These resources, as well as the accompanying reserves as estimated by Mr Leonardt Raaths, were most recently included in the 31 January 2017 Competent Person's Report ("CPR") compiled by Venmyn Deloitte entitled "Independent Competent Person's Report on the Coal Assets of Keaton Energy Holdings Limited". As no recent work has been conducted on the Moabsvelden area, the resource and reserve estimates contained in this report, are as per the 2017 Venmyn Deloitte CPR.

Resources for the remaining two projects, namely Sterkfontein and Braakfontein, were added to this report as per the 31 March 2017 Venmyn Deloitte CPR as it was stated by Wescoal to the Competent Persons ("CPs") that no work was conducted that could affect the resources declared previously for these areas. On Sterkfontein, a permitting change was initiated through the submission of an application for two mining rights over the total Sterkfontein prospecting areas together with a section102 application to consolidate the two mining rights when executed.

## RESOURCE AND RESERVE SUMMARY

The emphasis of Resource and Reserve reporting was standardisation and emphasis on the likely prospect for eventual economic extraction.

As at the end of March 2018 Wescoal holds a total Managed Resource of 308.6mt (293.7mt attributable) (FY17: 31.6mt (attributable 27.2mt)) and an inclusive Managed Reserve of 99.1mt (86.3mt attributable) (FY17: 28.9mt (attributable 25.9mt)) net of 7.1mt depletion for the reporting period.

Coal Resource and Coal Reserve estimates for the period ended 31 March 2018 are included below. The estimates for FY18 are compared to the FY17 estimates and a reconciliation provided in each of the asset sections below.

## LEGAL, LICENSING AND PERMITTING

Wescoal on behalf of the directors provided a statement, confirming that there are no legal proceedings or other material conditions that may impact the company's ability to continue mining or exploration activities. Miptec compiled a summary on critical licensing and permitting aspects of all mining areas covered in this report. Based on this information Miptec has concluded that Wescoal has the legal entitlement to coal resources and reserves as reported in this report.

Table 1: Wescoal Resource and Reserve summary
at 31 March 2018

| | Coal Resource (MTIS) (AD) | | | | ROM Coal Reserve (AR) | | |
|---|---|---|---|---|---|---|---|
| | Inferred mt | Indicated mt | Measured mt | Total Coal Resource mt | Probable mt | Proved mt | Total Rom Coal Reserve mt |
| Elandspruit Colliery | | | 19.06 | 19.06 | 0.59 | 17.66 | 18.25 |
| Elandspruit opencast | | | 16.94 | 16.94 | 0.59 | 16.39 | 16.98 |
| 4 Seam | – | – | 1.40 | 1.40 | – | 1.18 | 1.18 |
| 3 Seam | – | – | 0.49 | 0.49 | 0.01 | 0.55 | 0.56 |
| 2U Seam | – | – | 2.54 | 2.54 | 0.19 | 2.38 | 2.57 |
| 2L Seam | – | – | 5.20 | 5.20 | 0.20 | 5.01 | 5.20 |
| 1 Seam | – | – | 7.32 | 7.32 | 0.19 | 7.27 | 7.46 |
| Elandspruit underground | | | 2.12 | 2.12 | – | 1.27 | 1.27 |
| 1 Seam | | | 2.12 | 2.12 | | 1.27 | 1.27 |
| Intibane Colliery | | | 1.26 | 1.26 | | 1.10 | 1.10 |
| 4 Seam | | | 0.03 | 0.03 | | 0.02 | 0.02 |
| 2 Seam | | | 1.23 | 1.23 | | 1.08 | 1.08 |
| Khanyisa Colliery | – | 0.12 | 4.62 | 4.75 | – | 4.34 | 4.34 |
| Triangle total (Wescoal owns 35%) | – | 0.12 | 3.75 | 3.87 | – | 3.64 | 3.64 |
| Triangle opencast | | 0.12 | 3.75 | 3.87 | | 3.64 | 3.64 |
| 4U Seam | | 0.03 | 0.50 | 0.52 | | 0.50 | 0.50 |
| 4L Seam | | 0.04 | 1.15 | 1.19 | | 1.10 | 1.10 |
| 2 Seam | | 0.06 | 2.10 | 2.16 | | 2.04 | 2.04 |
| Triangle underground | – | – | – | – | – | | – |
| 4L Seam | | | | – | | | |
| 2 Seam | | | | – | – | | – |
| Catwalk total | | | 0.87 | 0.87 | | 0.70 | 0.70 |
| 2 Seam | | | 0.87 | 0.87 | | 0.70 | 0.70 |
| Vanggatfontein Colliery | 1.61 | 9.87 | 73.32 | 84.79 | 7.56 | 27.96 | 35.52 |
| 5 Seam | 0.32 | 0.67 | 3.03 | 4.02 | 0.47 | 0.89 | 1.36 |
| 4 Seam | 0.67 | 4.65 | 39.78 | 45.09 | 3.33 | 14.51 | 17.84 |
| 2 Seam | 0.62 | 4.55 | 30.51 | 35.68 | 3.77 | 12.56 | 16.32 |
| Moabsvelden project | | | 47.77 | 47.77 | 3.95 | 35.91 | 39.86 |
| 5 Seam | | | 2.77 | 2.77 | 0.14 | 2.76 | 2.90 |
| 4 Seam | | | 20.97 | 20.97 | 2.17 | 16.73 | 18.90 |
| 2 Seam | | | 20.18 | 20.18 | 1.45 | 13.99 | 15.44 |
| 1 Seam | | | 3.86 | 3.86 | 0.20 | 2.43 | 2.62 |
| Braakfontein project | | 60.06 | – | 60.06 | | | |
| Braakfontein opencast | | 11.44 | | 11.44 | | | |
| Top Seam | | 6.90 | | 6.90 | | | |
| Bottom Seam | | 4.53 | | 4.53 | | | |
| Braakfontein underground | | 48.62 | | 48.62 | | | |
| Top Seam | | 29.73 | | 29.73 | | | |
| Bottom Seam | | 18.90 | | 18.90 | | | |
| Sterkfontein project | 40.64 | 50.29 | – | 90.93 | | | |
| 4U Seam | 0.12 | 0.99 | | 1.11 | | | |
| 4L Seam | 40.52 | 49.30 | | 89.82 | | | |
| Total | 42.25 | 120.35 | 146.04 | 308.63 | 12.11 | 86.96 | 99.07 |
| Wescoal attributable | 42.25 | 120.27 | 131.18 | 293.69 | 11.08 | 75.26 | 86.34 |

The attributable resources and reserves were all based on a 100% basis except for the Triangle (Khanyisa) that is only 35% attributable and Moabsvelden that is 74% attributable.

It is important to note that coal resource estimates are inclusive of coal reserves, net of mining depletion, and are compliant with the SAMREC 2016 guidelines and the JSE Section 12.11. Estimations were rounded, and subsequent additions could result in minor discrepancies which are not considered material. The coal resources and reserves will be affected by factors such as changes in coal pricing, currency fluctuations, permitting, legislation and operating parameters.

## COMPLIANCE

The respective Coal Resource and Coal Reserve estimates are classified and signed off by suitably qualified 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 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.

## COMPETENT PERSONS

The CP responsible for the resource estimations for Elandspruit, Intibane, Khanyisa and Vanggatfontein, as contained in this report, is Ms Katherine Black (BSc (Hons)), Pr.Sci.Nat. Ms Black has 11 years' experience in the mining industry as a coal geologist. Over the last 10 years, she has primarily been involved in the compilation and management of coal databases, the construction of geological models, and the estimation of coal resources for various greenfield operations in South Africa, Botswana and Mozambique, as well as a number of operating coal mines in South Africa. Ms Black is currently the owner of KJB GeoServices (60 Curvy Road, Johannesburg 2194) and an associate of Miptec. She is registered with the South African Council for Natural Scientific Professions (SACNASP Reg. No. 400295/12) and is a member in good standing with the Geological Society of South Africa.

In accordance with the SAMREC Code, this report has been prepared under the direct supervision of a Lead Competent Person, Mr Leonardt Raaths, who assumes overall responsibility for this report. Mr Raaths is responsible for all of the reserve estimations. 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 at Miptec Consulting Proprietary Limited, 19 Jan Frederik Street, Witbank (PO Box 40084, Reyno Ridge 1049).

## GEOLOGICAL SETTING AND MODEL

All resources exclusive of Moabsvelden, Braakfontein and Sterkfontein were remodelled from bas borehole logs, analysis and survey information in Ventex Stratmodel Software. All assets modelled formed part of the Witbank coal field where coal seams 5, 4, 3, 2 and 1 seam horizons constitute the resource either in part or in full depending on the coal deposit. For the Moabsvelden, Braakfontein and Sterkfontein areas, the resources were extracted from the Venmyn 2017 CPR with no change to the quantums.

## EXPLORATION ACTIVITIES AND EXPENDITURE

Of the total resources estimated at 308.6mt, approximately 50% is not in the Measured category. Wescoal manages an ongoing drilling programme as part of its short-term technical control processes to validate the mining and coal quality parameters on the operating assets. Vanggatfontein is the only operating asset with 85% of the resources in the Measured category. The expenditure of the said programme is reflected as part of the operating costs of the organisation.

# ELANDSPRUIT COMPLEX

The Elandspruit complex comprises both opencast and underground operations and is 100% owned by Wescoal. It is located approximately 8 kilometres west of the town of Middelburg in Mpumalanga on the farm Elandspruit 291 JS and encompasses an area of 538 hectares.

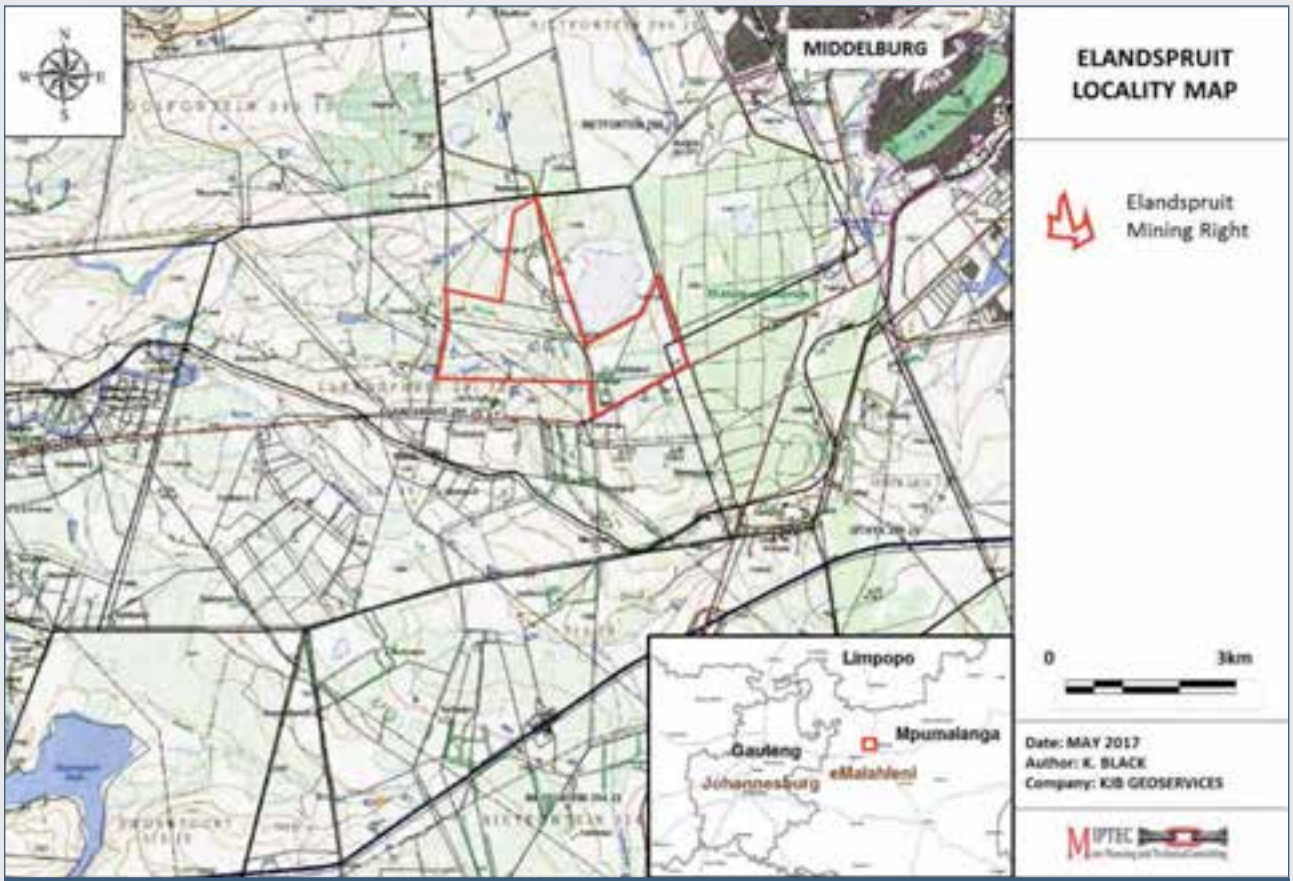



Figure 1: Elandspruit location plan

Wescoal holds the Mining Right that was granted in October 2010 for 16 years. A WUL was granted in May 2015. The life of mine ("LOM") plan for Elandspruit is in line with the current mining strategy regarding both opencast and underground operations.

## COAL RESOURCES

Currently all seams present within the delineated opencast areas are scheduled for mining, namely the No. 4 Lower Coal Seam, No. 3 Coal Seam, No. 2 Upper and Lower Coal Seams and the No. 1 Coal Seam. Within the underground mining area, only the No. 1 Coal Seam is targeted for mining. As such, all other seams have been excluded from the UG estimations. This decision was made based on the principle that all seams should have the potential for economic extraction.

GTIS coal resources were estimated from the geological model by applying 0.5m seam thickness cut-off on opencast and 1.2m minimum on underground, with coal below the limit of weathering to ensure fresh coal only. All coal included in the resources had a volatile matter greater than 18% and ash content less than 50%. A 10% geological loss was applied to calculate MTIS based on coal in the Measured category. All coal resources were within the Mining Right boundaries, exclusive of the 9m boundary pillar, environmental sensitive zones, grave sites and applicable servitudes with protective zones.

Table 2: Elandspruit Resource estimate summary
as at 31 March 2018 (100% attributable)

| | Coal Resource (MTIS) (AD) | | | | Raw Coal Quality (AD) | | | |
|---|---|---|---|---|---|---|---|---|
| | Inferred mt | Indicated mt | Measured mt | Total mt | CV (AD) MJ/kg | (AD) % | VM (AD) % | TS (AD) % |
| Elandspruit Colliery | – | – | 19.06 | 19.06 | 21.41 | 29.49 | 21.77 | 0.98 |
| Opencast total | | | 16.94 | 16.94 | 21.44 | 29.25 | 21.62 | 0.99 |
| 4L Seam | | | 1.40 | 1.40 | 25.29 | 17.79 | 21.17 | 1.02 |
| 3 Seam | | | 0.49 | 0.49 | 27.36 | 15.95 | 30.58 | 2.95 |
| 2U Seam | | | 2.54 | 2.54 | 18.44 | 35.84 | 20.80 | 1.07 |
| 2L Seam | | | 5.20 | 5.20 | 21.46 | 28.77 | 20.64 | 0.89 |
| 1 Seam | | | 7.32 | 7.32 | 21.33 | 30.37 | 22.10 | 0.89 |
| Underground total | | | 2.12 | 2.12 | 21.21 | 31.45 | 22.94 | 0.95 |
| 1 Seam | | | 2.12 | 2.12 | 21.21 | 31.45 | 22.94 | 0.95 |

Table 3: Elandspruit comparison of Resource estimates
Reconciliation March 2017 to March 2018

| | Coal Resource (MTIS) (AD) | | | FY18 actual mining | | Coal Reserve (ROM) (AR) | | |
|---|---|---|---|---|---|---|---|---|
| | Mar 17 mt | Mar 18 mt | Variance mt | MTIS (AD) MJ/kg | ROM (AR) % | Variance mt | Mar 17 mt | Mar 18 mt |
| Elandspruit Colliery | 21.50 | 19.06 | 2.44 | 2.82 | 3.06 | 3.04 | 21.29 | 18.25 |
| Opencast total | 19.12 | 16.94 | 2.18 | 2.58 | 2.80 | 2.78 | 19.76 | 16.98 |
| 4L Seam | 1.42 | 1.40 | 0.02 | 0.05 | 0.06 | 0.01 | 1.19 | 1.18 |
| 3 Seam | 0.51 | 0.49 | 0.02 | 0.03 | 0.03 | 0.03 | 0.59 | 0.56 |
| 2 Seam | 8.92 | 7.74 | 1.18 | 1.35 | 1.47 | 1.44 | 9.21 | 7.78 |
| 1 Seam | 8.27 | 7.32 | 0.95 | 1.15 | 1.24 | 1.30 | 8.76 | 7.46 |
| Underground total | 2.38 | 2.12 | 0.26 | 0.24 | 0.26 | 0.26 | 1.53 | 1.27 |
| 1 Seam | 2.38 | 2.12 | 0.26 | 0.24 | 0.26 | 0.26 | 1.53 | 1.27 |

Table 2 reflects the March 2018 Resource estimates, and Table 3 compares the 2017 to 2018 estimates, as well as the actual surveyed ROM tonnes ("AR"). The total change in resources is 2.44mt, less depletion of 2.8mt (MTIS) equating to a gain of 0.38mt. This is mainly due to gains on the No. 4L and No. 3 Seams that were conservatively modelled based on geological holes that intersected these seams, as well as the mining of the low-quality No. 2U and No. 1L Seams that were not included as Resources and Reserves based on their poor quality.

## COAL RESERVES

Reserves for Elandspruit are based on the current mining strategy with regard to both opencast and underground operations. This complex was visited in May 2018 by Mr Leonardt Raaths, accompanied by Mr B Leonard, who is responsible for managing the mine.

Elandspruit commenced mining in June 2015, total ROM extracted for FY16 was 1.26mt. FY17 accounts for a full year of production during which 2.5mt of ROM was extracted. For FY18 a total of 2.8mt opencast and 0.26mt underground were surveyed as ROM extracted from Elandspruit.

Reserves are based on coal resources, for opencast 14% total losses with 4% contamination were applied to the resource for estimation purposes. Underground reserves were based on coal resources and the specific methodology to determine coal in bords and pillars. Primary mining reserves were finalised by applying a 10cm contamination in conjunction with 10% geological loss. In all cases the As Received conversion was done by adding 4% moisture to the Air Dried tonnage.

Table 4: Elandspruit Reserves estimates
as at 31 March 2018

| Elandspruit Reserve estimate 31 March 2018 (100% Wescoal attributable) | | | | | | Saleable qualities (4L and 3 Seam raw, 2U Seam 20MJ/kg and 20% vol. Seam 1 and 2L max 26% ash) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Project | Reserve category | Seam | Reserve block | MTIS (AD) mt | ROM (AR) mt | Saleable (AR) mt | Yield % | CV (AD) MJ/kg | Ash (AD) % | Vol (AD) % | TS (AD) % |
| Elandspruit Colliery opencast | Probable | 4L Seam | Pit 1 | 0.09 | 0.10 | 0.10 | 98 | 26.16 | 17.45 | 21.56 | 1.15 |
| | | | Pit 2 | 0.05 | 0.05 | 0.05 | 98 | 25.81 | 17.42 | 21.77 | 0.89 |
| | | | Yoc. N | 0.20 | 0.21 | 0.21 | 98 | 25.21 | 17.66 | 21.82 | 1.00 |
| | | | Yoc. E | 0.63 | 0.68 | 0.67 | 98 | 25.48 | 17.36 | 21.87 | 1.13 |
| | | | GrasP S | 0.13 | 0.14 | 0.13 | 98 | 27.42 | 15.00 | 31.10 | 1.91 |
| | | Total 4L Seam | | 1.09 | 1.18 | 1.16 | 98 | 25.73 | 17.15 | 22.89 | 1.19 |
| | | 3 Seam | Pit 1 | 0.04 | 0.05 | 0.05 | 98 | 26.93 | 16.13 | 29.65 | 3.68 |
| | | | Pit 2 | 0.07 | 0.08 | 0.08 | 98 | 27.38 | 14.72 | 29.75 | 3.29 |
| | | | Yoc. N | 0.10 | 0.11 | 0.11 | 98 | 27.80 | 14.16 | 31.30 | 2.60 |
| | | | Yoc. E | 0.25 | 0.27 | 0.26 | 98 | 27.59 | 16.76 | 31.02 | 3.05 |
| | | | GrasP S | 0.05 | 0.05 | 0.05 | 98 | 26.76 | 16.92 | 30.82 | 2.62 |
| | | Total 3 Seam | | 0.51 | 0.55 | 0.54 | 98 | 27.47 | 15.90 | 30.76 | 3.01 |
| | | 2U Seam | IPP | – | – | – | – | – | – | – | – |
| | | | Pit 1 | 0.37 | 0.40 | 0.29 | 73 | 21.00 | 29.09 | 19.91 | 0.50 |
| | | | Pit 2 | 0.33 | 0.36 | 0.20 | 56 | 21.00 | 28.99 | 19.79 | 0.37 |
| | | | Yoc. N | 0.17 | 0.19 | 0.11 | 60 | 21.00 | 29.25 | 20.81 | 0.34 |
| | | | Yoc. E | 1.08 | 1.17 | 0.66 | 56 | 21.00 | 29.67 | 22.30 | 0.59 |
| | | | GrasP S | 0.24 | 0.26 | 0.21 | 79 | 22.74 | 25.61 | 24.00 | 1.66 |
| | | Total 2U Seam | | 2.20 | 2.38 | 1.47 | 62 | 21.24 | 28.86 | 21.61 | 0.67 |
| | | 2L Seam | IPP | 0.01 | 0.01 | 0.01 | 82 | 22.21 | 26.00 | 19.75 | 0.68 |
| | | | Pit 1 | 0.47 | 0.51 | 0.39 | 76 | 22.39 | 26.00 | 20.34 | 0.55 |
| | | | Pit 2 | 1.21 | 1.31 | 1.06 | 81 | 22.43 | 25.98 | 20.68 | 0.67 |
| | | | Yoc. N | 0.90 | 0.98 | 0.79 | 81 | 22.62 | 26.00 | 20.67 | 0.61 |
| | | | Yoc. E | 1.73 | 1.87 | 1.46 | 78 | 22.64 | 25.98 | 20.94 | 0.62 |
| | | | GrasP S | 0.31 | 0.34 | 0.26 | 78 | 22.99 | 25.92 | 22.02 | 0.90 |
| | | Total 2L Seam | | 4.63 | 5.01 | 3.96 | 79 | 22.58 | 25.98 | 20.83 | 0.64 |
| | | 1 Seam | IPP | 0.01 | 0.01 | 0.01 | 71 | 22.85 | 26.00 | 21.29 | 0.43 |
| | | | Pit 1 | 0.51 | 0.55 | 0.44 | 80 | 22.84 | 26.00 | 22.26 | 0.54 |
| | | | Pit 2 | 1.87 | 2.02 | 1.60 | 79 | 22.82 | 25.96 | 22.70 | 0.72 |
| | | | Yoc. N | 1.73 | 1.87 | 1.51 | 81 | 22.92 | 25.98 | 22.43 | 0.63 |
| | | | Yoc. E | 2.27 | 2.46 | 1.81 | 73 | 23.12 | 26.00 | 22.85 | 0.54 |
| | | | GrasP S | 0.32 | 0.35 | 0.23 | 66 | 23.82 | 26.00 | 26.81 | 0.42 |
| | | Total 1 Seam | | 6.72 | 7.27 | 5.59 | 77 | 22.99 | 25.98 | 22.81 | 0.61 |
| | Total Proved | | | 15.15 | 16.39 | 12.72 | 78 | 23.10 | 25.08 | 22.40 | 0.78 |
| | Probable | 3 Seam | GrasP. N | 0.01 | 0.01 | 0.01 | 98 | 26.95 | 16.57 | 30.92 | 9.07 |
| | | 2U Seam | GrasP. N | 0.18 | 0.19 | 0.15 | 79 | 22.41 | 25.92 | 22.87 | 1.26 |
| | | 2L Seam | GrasP. N | 0.18 | 0.20 | 0.16 | 80 | 22.94 | 25.83 | 22.25 | 1.13 |
| | | 1 Seam | GrasP. N | 0.18 | 0.19 | 0.13 | 69 | 23.44 | 26.00 | 25.86 | 0.49 |
| | Total Probable | | | 0.55 | 0.59 | 0.45 | 77 | 22.99 | 25.73 | 23.68 | 1.14 |
| Total/average Elandspruit opencast | | | | 15.70 | 16.98 | 13.17 | 78 | 23.09 | 25.11 | 22.44 | 0.80 |
| Elandspruit underground | Proved | 1 Seam | Primary Mining | 1.17 | 1.27 | 0.93 | 73 | 23.38 | 25.87 | 24.13 | 0.57 |
| | Total/AVG Elandspruit underground | | | 1.17 | 1.27 | 0.93 | 73 | 23.38 | 25.87 | 24.13 | 0.57 |
| Total/average Elandspruit Colliery Reserves | | | | 16.87 | 18.25 | 14.10 | 77 | 23.11 | 25.16 | 22.55 | 0.78 |

## ENVIRONMENTAL MANAGEMENT AND CLOSURE FUNDING

The Elandspruit Mine environmental liability was assessed by Jaco Kleynhans (Jaco-K Consulting) as at April 2018. The report reflects the Department of Mineral Resources ("DMR") guideline assessment of R58.8 million including VAT, an increase of R14.8 million on an equivalent base. Ongoing rehabilitation will ensure that the current rehabilitation liability is at least maintained.

Environmental guarantees in favour of the DMR are in place but not sufficient at the 2017 quantum of R42 million. As such this guarantee is in the process of being updated for the new quantum.

## FUTURE WORK

- Completion of the environmental applications relating to the relaxation of the pan buffer and exclusion zones. On approval, the Resources and Reserves could potentially increase
- As an additional option, permission to undermine the wetlands within the licence area
- Work relating to the relocation of the powerlines between the Yoctolux North pit and the Pit 2 north of the Yoctolux North pit and powerline. Resources and Reserves could potentially increase as a result of this work

## MATERIAL RISK

Table 5: Elandspruit risks

| TYPE OF RISK | RISK | MITIGATION | LEVEL OF RISK |
|---|---|---|---|
| Safety and production | Utilising mining contractors with insufficient capacity resulting in sub-amount and increased number of equipment with low availability | Focused management on contractor equipment, planning of activities and haulroutes | Low |

# INTIBANE COMPLEX

The Intibane complex is located some 14 kilometres west of Ogies in Mpumalanga. It comprises portions of the farm Vlakvarkfontein 213 IR and covers an area of 167.78ha. The Intibane complex comprises Wescoal's Intibane 1 Colliery which is mined out, and the currently operational Intibane 2 area which is located adjacent and immediately to the north of the mined-out Intibane 1.

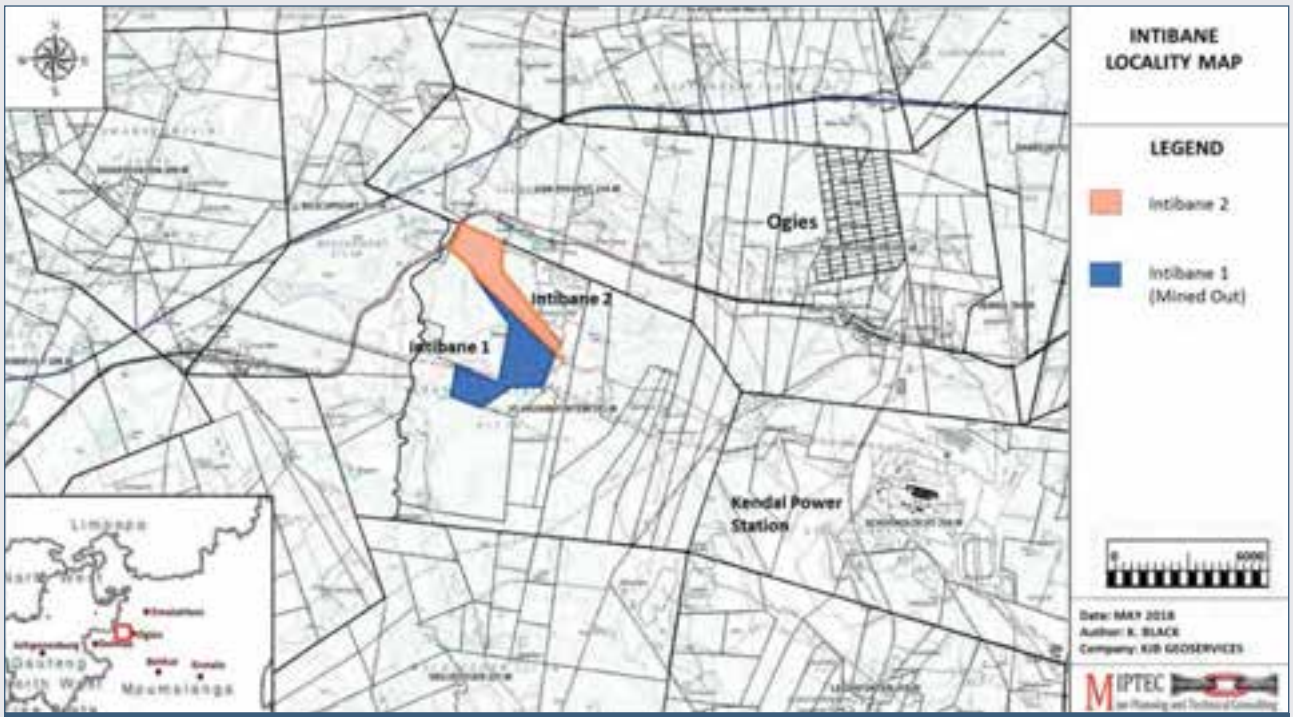



Figure 2. Intibane locality map

The R555 road passes to the north of the property. The Kendal Power Station is situated 13 kilometres east of the property. The location of the colliery is 26.059267°S latitude and 28.888322°E longitude.

Wescoal owns the Mining Right for Intibane1 which was granted in August 2012 for 10 years, Intibane 2 is covered by a Mining Right purchased by Wescoal and granted to Minthiro Mining Proprietary Limited in June 2010. A section 102 process is still in progress to consolidate the two Mining Rights under Wescoal's Mining Right. This submission was done in June 2015. Wescoal currently manages the Intibane 2 reserves as per contract with the owners of the Mining Right. A WUL exists for both mining rights. All necessary permits and licences are in place to conduct mining activities at Intibane.

Intibane 2 is a continuation from the Intibane1 final void. The mining strategy remained unchanged. Both the No. 4 Lower and No. 2 Coal Seams are currently being mined within the Intibane 2 area. A portion of the No. 4 Lower Coal Seam has been previously mined, and in this area, the remaining pillar coal was mined out in 2018. The No. 2 Coal Seam has not been historically mined. Both the No. 4 Lower and No. 2 Coal Seams are currently being mined via opencast methods.

## COAL RESOURCES

GTIS Coal Resources were estimated from the geological model by applying 0.5m seam thickness cut-off on opencast, with coal below the limit of weathering to ensure fresh coal only. All coal included in the resources had a volatile matter greater than 18% and ash content less than 50%. A 10% geological loss was applied to calculate MTIS based on coal in the Measured category. All coal resources were within the Mining Right boundaries, exclusive of the 9m boundary pillar and grave sites.

Table 6: Intibane complex Resource estimate summary
as at 31 March 2018 (100% attributable)

| | Coal Resource (MTIS) (AD) | | | | Raw coal quality (AD) | | | |
|---|---|---|---|---|---|---|---|---|
| | Inferred mt | Indicated mt | Measured mt | Total mt | CV (AD) MJ/kg | (AD) % | VM (AD) % | TS (AD) % |
| Intibane Colliery | – | – | 1.26 | 1.26 | 19.06 | 33.08 | 21.26 | 0.92 |
| 4L Seam total | | | 0.03 | 0.03 | 23.06 | 20.39 | 24.26 | 1.12 |
| In-situ | | | 0.03 | 0.03 | 23.06 | 20.39 | 24.26 | 1.12 |
| Pillars | | | – | – | – | – | – | – |
| 2 Seam total | | | 1.23 | 1.23 | 18.96 | 33.40 | 21.18 | 0.92 |
| 2 Seam total | | | 1.23 | 1.23 | 18.96 | 33.40 | 21.18 | 0.92 |

Table 7: Intibane Resource estimates
Reconciliation March 2017 to March 2018

| | Coal Resource (MTIS) (AD) | | | FY18 actual mining | | Coal Reserve (ROM) (AR) | | |
|---|---|---|---|---|---|---|---|---|
| | Mar 17 mt | Mar 18 mt | Variance mt | MTIS (AD) MJ/kg | ROM (AR) % | Variance mt | Mar 17 mt | Mar 18 mt |
| Intibane Colliery | 2.13 | 1.26 | 0.91 | 0.83 | 0.86 | 0.79 | 1.89 | 1.10 |
| 4L Seam total | 0.27 | 0.03 | 0.28 | 0.23 | 0.25 | 0.16 | 0.18 | 0.02 |
| 2 Seam total | 1.86 | 1.23 | 0.63 | 0.56 | 0.61 | 0.63 | 1.71 | 1.08 |

A total of 0.86mt (ROM AR) was mined from Intibane 2 for FY18. Detailed in Table 7 is a decrease in resources of 0.91mt (MTIS AD) compared to a depletion of 0.86mt (ROM AR) surveyed. This relates then to a gain on the No. 4 and No. 2 Coal Seam. The No. 4 Coal Seam was previously mined underground, the estimations reflects the risk associated with the available information with regard to the previous mining.

## COAL RESERVES

Reserves for the Intibane complex were based on the existing proven mining strategy. Infrastructure from Intibane 1 is still in place currently and is utilised by Intibane 2. Mining is contracted out to an approved opencast mining contractor. The crushing, screening and XRT plants are operated on contract by Wescoal-appointed processing contractors.

Actual ROM production for Intibane increased from 0.56mt in FY16 to 0.85mt in FY17 and to 0.86mt in FY18.

Coal resources formed the basis for the reserves. Reserve estimate was based on a total loss of 14%, contamination of 4% and the As Received tonnages based on 4% additional moisture.

Table 8: Intibane Reserve estimate summary
at 31 March 2018

| Intibane Colliery Reserve estimate 31 March 2018 (100% Wescoal attributable) | | | | | | Saleable qualities (4L 100% raw crush and screen, 2 Seam 80% on a crush and screen basis, with 20% beneficiated in the XRT plant) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Project | Reserve category | Seam | Reserve block | MTIS (AD) mt | ROM (AR) mt | Saleable (AR) mt | Yield % | CV (AD) MJ/kg | Ash (AD) % | Vol (AD) % | TS (AD) % |
| Intibane Colliery opencast | Proved | 4L Seam | West | 0.02 | 0.02 | 0.02 | 100 | 23.02 | 20.37 | 24.25 | 1.09 |
| | | | East | – | – | – | – | – | – | – | – |
| | | Total 4L Seam | | 0.02 | 0.02 | 0.02 | 100% | 23.02 | 20.37 | 24.25 | 1.09 |
| | | 2 Seam | West | 0.77 | 0.80 | 0.75 | 94 | 19.08 | 33.44 | 21.17 | 0.81 |
| | | | East | 0.27 | 0.28 | 0.27 | 94 | 19.40 | 31.84 | 21.96 | 0.98 |
| | | Total 2 Seam | | 1.04 | 1.08 | 1.02 | 94 | 19.16 | 33.02 | 21.38 | 0.86 |
| Total proved | | | | 1.06 | 1.10 | 1.04 | 94 | 19.25 | 32.73 | 21.44 | 0.86 |
| Total/average Intibane Colliery | | | | 1.06 | 1.10 | 1.04 | 94 | 19.25 | 32.73 | 21.44 | 0.86 |

Total estimated reserves remaining as at 31 March 2018 is 1.1mt ROM (AR). This relates to an approximate LOM of 1.3 years.

## ENVIRONMENTAL MANAGEMENT AND CLOSURE FUNDING

An assessment of the current rehabilitation liability was made by Jaco Kleynhans dated April 2018. It amounts to R18.23 million including VAT, an increase of R1.4 million on a comparative basis from the 2017 estimate. The assessment was based on the DMR guidelines. The current east-west boxcut will systematically be replaced by a north-south boxcut, final closure is then based on closing this final void in the west. It was confirmed by the environmental practitioner from Ferret Mining, responsible for the compliance audits, that these audits were conducted and that no risks were identified that could influence the resource and reserves declared. Guarantees are in place as at March 2018 to the value of R15 million and in the process of being updated for the new quantums.

## FUTURE WORK

- Ramp-up of the XRT plant to designed capacity
- Pending approval of the section 102 application for the consolidation of the Wescoal Intibane Mining Right and the Minthiro Mining Right for Intibane 2. Wescoal to follow up on progress

## MATERIAL RISK

Table 9: Intibane risks

| TYPE OF RISK | RISK | MITIGATION | LEVEL OF RISK |
|---|---|---|---|
| Contract/legal | Mining contractors not meeting the required performance levels and contractual obligations in terms of product tonnages and quality, resulting in possible rejections and penalties | Blending in coal from other mines for tonnage and quality purposes. Buying in coal of required quality and quantity | Low |

# KHANYISA COMPLEX

The Khanyisa complex comprises the Triangle Resource Area, of which Wescoal owns a 35% stake, and the Catwalk Resource Area, of which Wescoal owns 100%. This complex is based on opencast operations and is located some 10 kilometres west of Ogies in Mpumalanga.

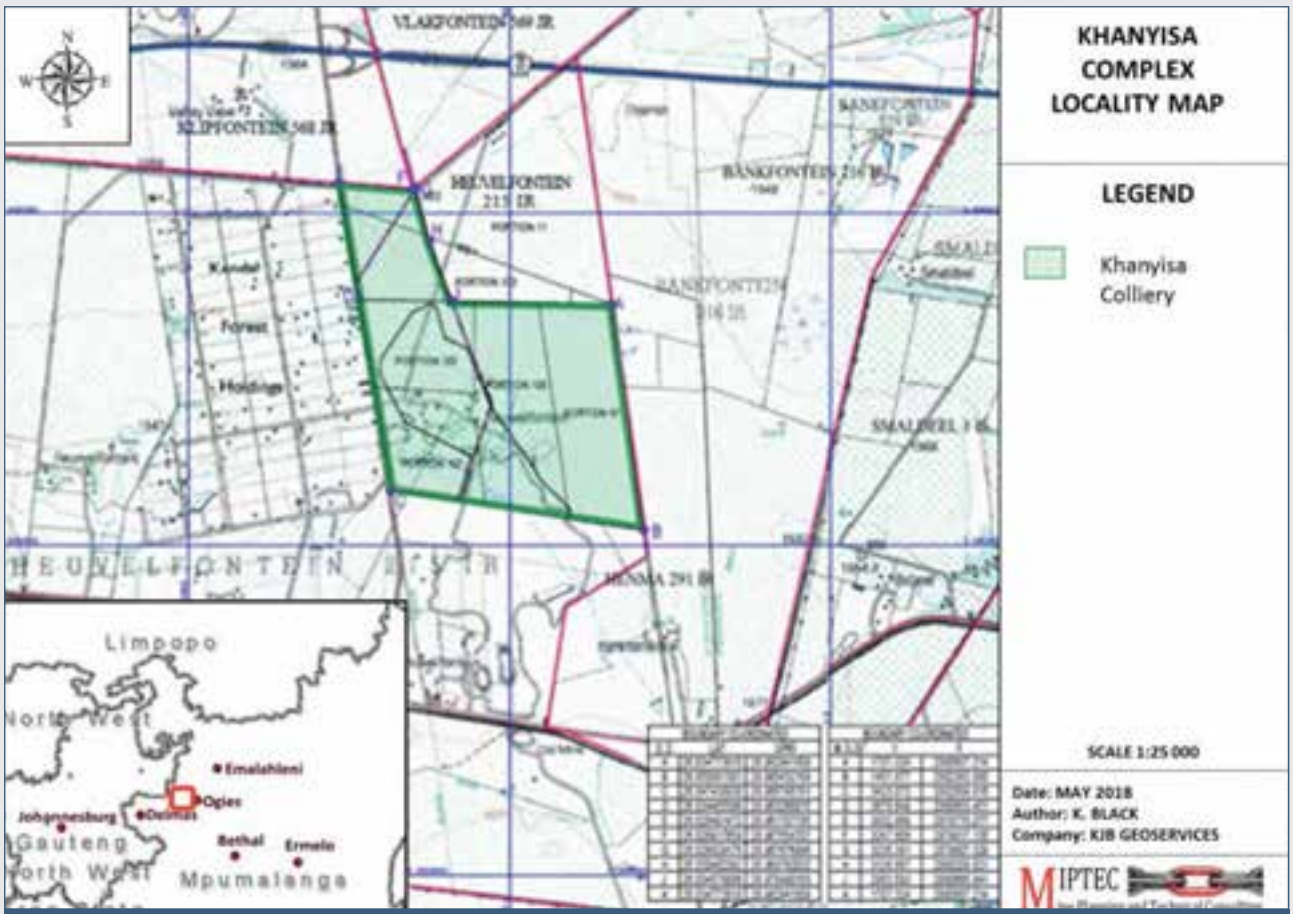



Figure 3. Khanyisa complex locality map

A WUL for the total integrated mining area was awarded in May 2016. The consolidated Mining Right was awarded in March 2017.

## COAL RESOURCES

Within the Triangle Colliery, the underground Coal Resources were delineated by the presence of two pipelines, one of which transects the property, and the second of which forms the eastern extent of the Mining Licence in the Triangle Area.

A 100m buffer zone on either side of the pipeline was applied, and it is under this zone that the underground resources were delineated and included in the coal resource estimates for the previous financial year (31 March 2017). The coal was included as precedent had been set to undermine the pipeline, as permission was granted in the now mined-out adjacent Khanyisa Colliery. As permissions have not been granted to undermine the pipeline, the resources previously reported under the pipeline have been excluded from the current Resource estimate.

The Catwalk Area to the south of the Triangle Resource Area has been divided into opencast in-situ areas where the coal has not been historically mined, as well as opencast resources comprising roof and pillar coal in the previously underground mined-out areas.

GTIS Coal Resources were estimated from the geological model by applying 0.5m seam thickness cut-off on opencast, with coal below the limit of weathering to ensure fresh coal only. Sterilised areas were identified from current practices, a minimum of 50m remained next to the district road measured from opencast workings and was applied to the remaining resources where applicable. Pillar coal estimates were based on 65% previous extraction. All coal included in the resources had a Volatile matter greater than 18% and ash content less than 50%. A 10% geological loss was applied to calculate MTIS based on coal in the Measured category. All coal resources were within the Mining Right boundaries, exclusive of the 9m boundary pillar.

Table 10: Khanyisa Resource estimate summary
as at 31 March 2018

| | Coal Resource (MTIS) (AD) | | | | Raw coal quality (AD) | | | |
|---|---|---|---|---|---|---|---|---|
| | Inferred mt | Indicated mt | Measured mt | Total mt | CV (AD) MJ/kg | (AD) % | VM (AD) % | TS (AD) % |
| Khanyisa Colliery (attributable) | – | 0.04 | 2.19 | 2.23 | 20.72 | 28.87 | 21.48 | 1.07 |
| Khanyisa Colliery (100%) | – | 0.12 | 4.62 | 4.75 | 20.72 | 28.87 | 21.48 | 1.07 |
| Triangle total (35%) | – | 0.04 | 1.31 | 1.36 | 20.33 | 29.50 | 21.60 | 1.03 |
| Triangle total (100%) | – | 0.12 | 3.75 | 3.87 | 20.33 | 29.50 | 21.60 | 1.03 |
| Triangle opencast | – | 0.12 | 3.75 | 3.87 | 20.33 | 29.50 | 21.60 | 1.03 |
| 4U Seam | – | 0.03 | 0.50 | 0.52 | 16.98 | 38.45 | 18.50 | 1.07 |
| 4L Seam | – | 0.04 | 1.15 | 1.19 | 22.25 | 23.94 | 23.62 | 1.29 |
| 2 Seam | – | 0.06 | 2.10 | 2.16 | 20.08 | 30.38 | 21.24 | 0.88 |
| Triangle underground | – | – | – | – | – | – | – | – |
| 4L Seam | – | – | – | – | – | – | – | – |
| 2 Seam | – | – | – | – | – | – | – | – |
| Catwalk total | – | – | 0.87 | 0.87 | 22.45 | 26.09 | 20.95 | 1.25 |
| 2 Seam total | – | – | 0.87 | 0.87 | 22.45 | 26.09 | 20.95 | 1.25 |

Table 11: Khanyisa Triangle resource estimates
Reconciliation March 2017 to March 2018

| | Coal Resource estimate (MTIS) (AD) | | | FY18 actual mining | | Coal Reserve (ROM) (AR) | | |
|---|---|---|---|---|---|---|---|---|
| | Mar 17 mt | Mar 18 mt | Variance mt | MTIS (AD) MJ | ROM (AR) % | Variance mt | Mar 17 mt | Mar 18 mt |
| Khanyisa Colliery total | 7.96 | 4.75 | 3.21 | 0.87 | 0.94 | 1.41 | 5.75 | 4.34 |
| Triangle total | 6.79 | 3.87 | 2.92 | 0.61 | 0.66 | 1.07 | 4.71 | 3.64 |
| Triangle opencast | 4.31 | 3.87 | 0.44 | 0.61 | 0.66 | 0.42 | 4.06 | 3.64 |
| 4U Seam | 0.57 | 0.52 | 0.05 | – | – | 0.01 | 0.51 | 0.50 |
| 4L Seam | 1.38 | 1.19 | 0.19 | 0.41 | 0.44 | 0.20 | 1.30 | 1.10 |
| 2 Seam | 2.36 | 2.16 | 0.20 | 0.20 | 0.22 | 0.21 | 2.25 | 2.04 |
| Triangle underground | 2.48 | – | 2.48 | – | – | 0.65 | 0.65 | – |
| 4L Seam | 1.04 | – | 1.04 | – | – | – | | – |
| 2 Seam | 1.44 | – | 1.44 | | – | 0.65 | 0.65 | – |
| Catwalk total | 1.17 | 0.87 | 0.30 | 0.26 | 0.28 | 0.34 | 1.04 | 0.70 |
| 4 Seam | | | | 0.04 | 0.04 | – | – | |
| 2 Seam | 1.17 | 0.87 | 0.30 | 0.22 | 0.24 | 0.34 | 1.04 | 0.70 |

Table 10 and Table 11 should be read together. The Total Estimated Resources as at 31 March 2018 amounted to 4.75mt, a change in resource of 3.2mt ("MTIS"), from the 7.96mt estimate in 2017. The large decrease in resources is predominantly due to the removal of the underground resources below the Transnet pipeline (2.48mt (MTIS), due to the fact that no approvals or permissions have been granted to undermine the pipeline. Mining depletion of 0.73mt accounts for the remaining decrease in resources. If the UG resource is eliminated from the change in resource, there is a gain of 0.14mt. The gain is mainly due to actual mining of low quality No. 4 Upper coal not included as resources and No. 4 Lower Seam mined where current information indicated no coal.

## COAL RESERVES

Coal resources formed the basis for the reserves, the Reserve estimate was based on a total loss of 14%, contamination of 4% and the As Received tonnages based on an additional 4% moisture.

Reserves for the Khanyisa complex were based on the proven opencast strip and pillar mining strategy that was executed throughout FY18.The Catwalk North mining area was depleted during FY18 with pillar mining continuing on the Catwalk South block.

Mining on the Triangle focused on the eastern side whilst permission is still pending to extend mining up to 50m from the district road. Fixed infrastructure is utilised, major mining activities are all contracted out, together with the crushing and screening plants. Additional mining contractor infrastructure was established to provide for the full service.

Table 12: Khanyisa Triangle Reserve estimate summary
as at 31 March 2018

| Khanyisa Triangle Reserve estimate 31 March 2018 (35% Wescoal attributable) | | | | | | Saleable qualities (all seams based on a raw crushed and screened product) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Project | Reserve category | Seam | Reserve block | MTIS (AD) mt | ROM (AR) mt | Saleable (AR) mt | Yield % | CV (AD) MJ/kg | Ash (AD) % | Vol (AD) % | TS (AD) % |
| Triangle opencast | Proved | 4U Seam | Pit 1 OC | 0.14 | 0.14 | 0.14 | 98 | 17.02 | 39.95 | 17.77 | 0.84 |
| | | | Pit 2 OC | 0.35 | 0.36 | 0.35 | 98 | 15.87 | 41.69 | 17.71 | 1.17 |
| | | Total 4U Seam | | 0.49 | 0.50 | 0.49 | 98 | 16.20 | 41.20 | 17.73 | 1.08 |
| | | 4L Seam | Pit 1 OC | 0.55 | 0.57 | 0.56 | 98 | 22.19 | 25.68 | 23.10 | 1.13 |
| | | | Pit 2 OC | 0.52 | 0.53 | 0.52 | 98 | 20.43 | 28.40 | 22.42 | 1.27 |
| | | Total 4L Seam | | 1.06 | 1.10 | 1.08 | 98 | 21.34 | 27.00 | 22.77 | 1.20 |
| | | 2 Seam | Pit 1 OC | 1.11 | 1.15 | 1.13 | 98 | 20.08 | 31.43 | 20.11 | 1.03 |
| | | | Pit 2 OC | 0.86 | 0.89 | 0.87 | 98 | 18.21 | 35.35 | 20.84 | 0.59 |
| | | Total 2 Seam | | 1.97 | 2.04 | 2.00 | 98 | 19.27 | 33.14 | 20.43 | 0.84 |
| Total Proved | | | | 3.52 | 3.64 | 3.57 | 98 | 19.47 | 32.40 | 20.76 | 0.98 |
| Triangle underground | Probable | 2 Seam | Pipeline UG | – | – | – | – | – | – | – | – |
| | Total Probable | | | – | – | – | – | – | – | – | – |
| Total/average Khanyisa Triangle Reserves | | | | 3.52 | 3.64 | 3.57 | 98 | 19.47 | 32.40 | 20.76 | 0.98 |
| Total/average Khanyisa Triangle Reserves (Wescoal attributable) | | | | 1.23 | 1.27 | 1.25 | 98 | 19.47 | 32.40 | 20.76 | 0.98 |

Table 13: Khanyisa Catwalk Reserve estimate summary
as at 31 March 2018

| Khanyisa Catwalk Reserve estimate 31 March 2018 (100% Wescoal attributable) | | | | | | Saleable qualities (raw basis, crushed and screened) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Project | Reserve category | Seam | Reserve block | MTIS (AD) mt | ROM (AR) mt | Saleable (AR) mt | Yield % | CV (AD) MJ/kg | Ash (AD) % | Vol (AD) % | TS (AD) % |
| Catwalk opencast | Proved | 2 Seam | Peripheral | 0.05 | 0.05 | 0.05 | 98 | 20.30 | 31.38 | 19.92 | 1.00 |
| | | | North In-situ | – | – | – | – | – | – | – | – |
| | | | North Pillar | – | – | – | – | – | – | – | – |
| | | | South In-situ | 0.08 | 0.08 | 0.08 | 98 | 21.55 | 28.15 | 19.89 | 0.84 |
| | | | South Pillar | 0.54 | 0.56 | 0.55 | 98 | 21.19 | 29.61 | 19.62 | 1.14 |
| | | Total 2 Seam | | 0.67 | 0.70 | 0.68 | 98 | 21.17 | 29.56 | 19.67 | 1.09 |
| Total Proved | | | | 0.67 | 0.70 | 0.68 | 98 | 21.17 | 29.56 | 19.67 | 1.09 |
| Total/average Khanyisa Catwalk Reserves | | | | 0.67 | 0.70 | 0.68 | 98 | 21.17 | 29.56 | 19.67 | 1.09 |

Triangle ROM reserves of 3.64mt opencast as at 31 March 2018 will be crushed, screened and blended to achieve the average product quality of 20.5CV. The yield for raw products is based on a 98% recovery. Losses incurred are due to oversize and stockpile floor losses in terms of contamination. At the current mining rate, the life of the Triangle mining area is estimated at slightly more than four years.

The shareholding agreement on the Triangle Area necessitates that the mining of ROM coal, crushing, screening and marketing be done independently from the Catwalk reserve.

The Catwalk ROM will be blended with the Intibane complex coal to achieve a 4 500-kcal product overall.

## ENVIRONMENTAL MANAGEMENT AND FUNDING

An assessment of the current rehabilitation liability was made by Jaco Kleynhans dated April 2018, it amounts to R35.1 million including VAT, an increase of R8.6 million on a comparative basis. The assessment was based on the DMR guidelines.

Rollover mining will be conducted, the average opencast pit length will be maintained, ensuring that the size of the opencast voids does not increase. Catwalk North was depleted and Catwalk South will be mined out before the Triangle is depleted. It was confirmed by the environmental practitioner from Ferret Mining responsible for the compliance audits that these audits were conducted and that no risks were identified that could influence the resources and reserves declared. Guarantees are in place as at March 2018 to the value of R26.5 million for the Catwalk area and are in the process of being updated for the new quantums.

## FUTURE WORK

- Ramp-up to planned production rates in both the Catwalk and the Triangle Areas
- Triangle has resources in both the Inferred and Indicated categories, and as such, future drilling should focus on these areas

## MATERIAL RISKS

Table 14: Khanyisa risks

| TYPE OF RISK | RISK | MITIGATION | LEVEL OF RISK |
|---|---|---|---|
| Recovery on pillars (Catwalk) | Pillar robbing | Evaluate financial viability. Consider washing the contaminated cleaning shale/coal between pillars | High |
| Rehabilitation Catwalk | Rehab liability with roughly one to two years of life remaining | Plan closure and rehab as part of the current operation | Medium |
| Low quality 4U ROM | Not being able to blend with 4L and 2 Seam, resulting in low grade ROM stockpiles | Plan blending operation | Low |

# VANGGATFONTEIN COLLIERY

## The Vanggatfontein Colliery (Vanggatfontein) is an opencast coal mining operation (100% owned by Wescoal), situated in the Witbank Coalfield of South Africa.

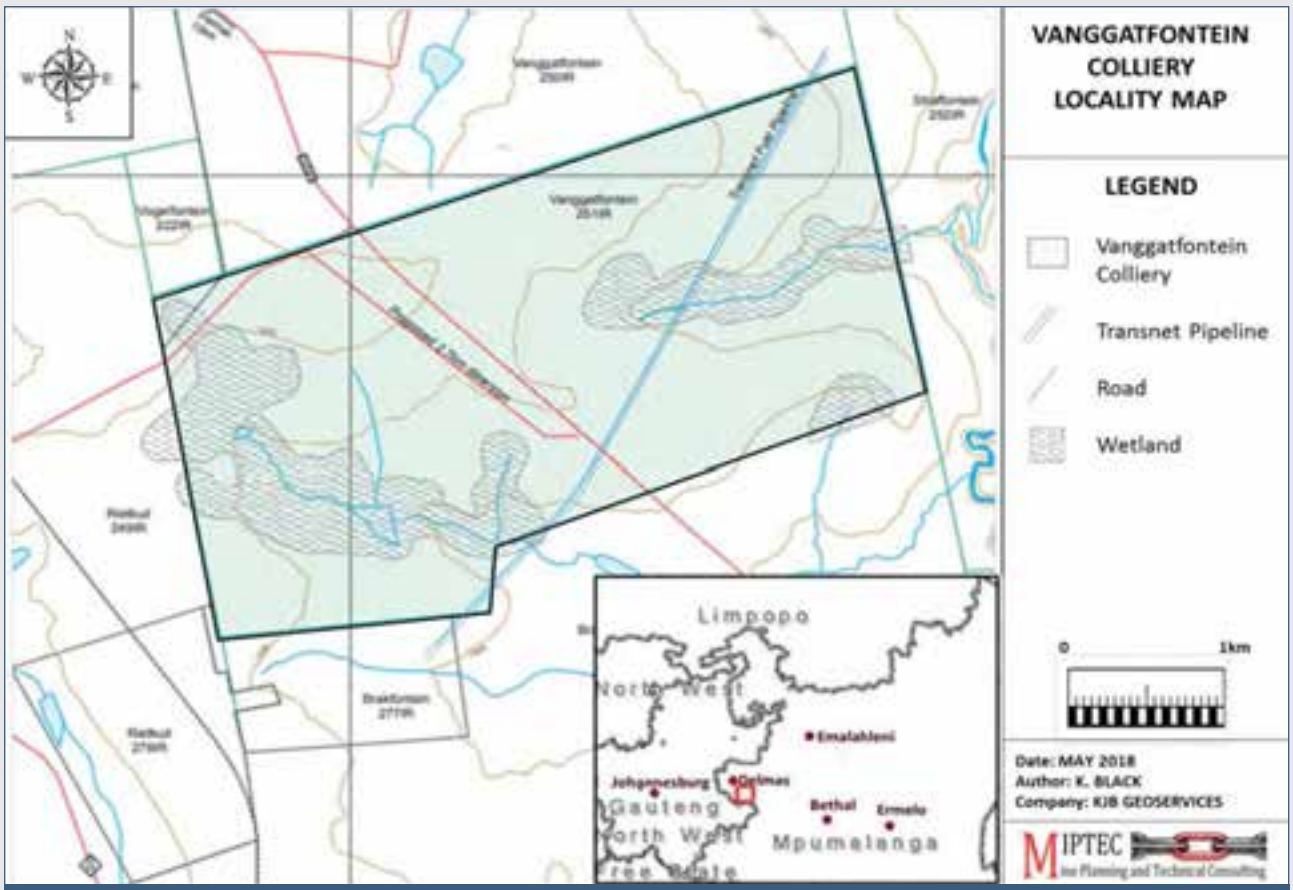



Figure 4. Vanggatfontein Colliery locality map

The colliery mines the No. 5, No. 4 and No. 2 Seams using truck and shovel rollover mining methods at an average rate of 340 000tpm ROM. The No. 5 Seam is processed through a 100tph plant for domestic metallurgical and boiler markets (No. 5 Seam Plant), whilst the No. 4 and No. 2 Seams are processed through a 480tph plant which produces thermal coal for Eskom. The colliery is located approximately 16 kilometres east south-east of the town of Delmas, in the Mpumalanga Province of South Africa. It is situated on the farm Vanggatfontein 251 IR and covers an area of 1 651.98ha.

In June 2009, Prospecting Right (MP/30/5/1/1/2/1/416PR) was successfully converted into a 20-year Mining Right (MP/30/5/1//2/2/309MR). The Mining Right was executed on 23 February 2010 and unless cancelled or suspended in terms of clause 13 of the Mining Right, or section 47 of the MPRDA (Act 28 of 2002), will continue in force for a period of 20 years, ending on 22 February 2030.

## COAL RESOURCES

GTIS Coal Resources were estimated from the geological model by applying 0.5m seam thickness cut-off, with coal below the Limit of Weathering to ensure fresh coal only. All coal included into resources has a cumulative float 1.8g/cm$^3$ volatile content greater than 16% and ash content of less than 50%. For the economical test an in-situ strip ratio of maximum 7.0 was utilised for coal included in resources. A 10% geological loss was applied to calculate MTIS for measured resources, this was increased by 5% for consecutive coal categories. All coal resources were within the Mining Right boundaries, exclusive of the 9m boundary pillar and the 100m protective zones around the Transnet pipelines and wetlands.

Table 15: Vanggatfontein Resources
as at 31 March 2018 (100% attributable)

| | Coal Resource (MTIS) (AD) | | | | Raw coal quality (AD) | | | |
|---|---|---|---|---|---|---|---|---|
| | Inferred mt | Indicated mt | Measured mt | Total mt | CV (AD) MJ/kg | (AD) % | VM (AD) % | TS (AD) % |
| Vanggatfontein Colliery | 1.61 | 9.87 | 73.32 | 84.79 | 17.14 | 38.32 | 18.27 | 1.02 |
| Eastern Resource block | 0.27 | 2.59 | 27.34 | 30.20 | 17.57 | 37.03 | 19.08 | 1.06 |
| 5 Seam | – | 0.11 | 0.80 | 0.91 | 21.12 | 28.72 | 23.19 | 1.28 |
| 4 Seam | 0.15 | 1.38 | 13.44 | 14.98 | 16.55 | 39.57 | 17.52 | 1.09 |
| 2 Seam | 0.11 | 1.09 | 13.10 | 14.31 | 18.40 | 34.92 | 20.45 | 1.01 |
| Western Resource block | 1.34 | 7.28 | 45.98 | 54.60 | 16.91 | 39.03 | 17.83 | 1.00 |
| 5 Seam | 0.32 | 0.56 | 2.23 | 3.11 | 20.76 | 30.22 | 22.04 | 1.10 |
| 4 Seam | 0.51 | 3.27 | 26.34 | 30.12 | 16.43 | 40.20 | 17.34 | 1.04 |
| 2 Seam | 0.50 | 3.46 | 17.41 | 21.37 | 17.02 | 38.68 | 17.91 | 0.94 |

Table 16: Vanggatfontein Resource reconciliation

| | GTIS mt | Geo loss | MTIS mt |
|---|---|---|---|
| 31 March 2017 estimate | 115.7 | 6.0 | 108.8 |
| Change in geo. loss | | 4.6 | 5.3 |
| Change in estimation | 20.7 | 10.6 | 18.5 |
| VG1/VG2 write-off | 4.9 | 10.6 | 4.3 |
| Depletion | 4.1 | 10.6 | 3.7 |
| Quality, loss, SR | 5.2 | 10.6 | 4.7 |
| Transnet pipeline | 6.5 | 10.6 | 5.8 |
| 31 March 2018 estimate | 95.1 | 10.6 | 84.9 |

Based on assessment of the borehole data and actual dolerite structures intersected during mining operations, the historical 5% geological loss factor for the Measured category was increased to 10%, which also correlates to the geological loss factors applied to the remainder of the Wescoal assets for the Measured category. The net change in resources based on geological loss factor adjustment as reported in the 2017 base is as stated in Table 16 amounting to 5MTIS. Taking this into consideration the net change between the normalised 2017 estimate and the 2018 estimate is 18mt MTIS. The breakdown of this 18mt is explained by the VG1/VG2 coal write-off of 4mt of coal remaining at the backfilled end cuts of both VG1 and VG2 continuing up to and under the existing plants, depletion by mining of 4mt, removal of the Transnet pipeline resource covering a distance of 100m on either side of the pipeline of 6mt and the final loss of 5mt due to a change in the quality cut-off as well as strip ratio cut-off parameters used.

Table 17: Vanggatfontein Resource and Reserve estimate change comparison to survey
Reconciliation March 2017 to March 2018 estimates

| | Coal Resource estimate (MTIS) (AD) | | | FY18 actual mining | | Coal Reserve (ROM) (AR) | | |
|---|---|---|---|---|---|---|---|---|
| | Mar 17 mt | Mar 18 mt | Variance mt | MTIS (AD) MJ/kg | ROM (AR) % | Variance mt | Mar 17 mt | Mar 18 mt |
| Vanggatfontein Colliery | 108.77 | 84.79 | (23.97) | 2.95 | 3.04 | 5.74 | 41.26 | 35.52 |
| Eastern Resource block | 52.55 | 30.20 | (22.35) | 2.95 | 3.04 | 3.69 | 31.65 | 27.96 |
| 5 Seam | 1.63 | 0.91 | (0.72) | 0.12 | 0.12 | 0.18 | 1.07 | 0.89 |
| 4 Seam | 25.26 | 14.98 | (10.28) | 1.68 | 1.73 | 1.50 | 16.01 | 14.51 |
| 2 Seam | 25.66 | 14.31 | (11.35) | 1.15 | 1.18 | 2.01 | 14.57 | 12.56 |
| Western Resource block | 56.22 | 54.60 | (1.62) | – | – | 2.04 | 9.61 | 7.56 |
| 5 Seam | 3.31 | 3.11 | (0.20) | | – | 0.16 | 0.63 | 0.47 |
| 4 Seam | 32.68 | 30.12 | (2.56) | | – | 0.98 | 4.30 | 3.33 |
| 2 Seam | 20.22 | 21.37 | 1.15 | – | – | 0.91 | 4.68 | 3.77 |

The comparison of the FY17 and FY18 reserves as tabled in Table 17 is 5.74mt ROM. There was a 2.04mt reserve reduction in VG6 on the western resource block due to delays in the work required to move the district road. The depletion for FY18 was surveyed as 3.04mt. ROM, the total accounted for in depletion and write-off being 5.08mt. The remaining 0.64mt is ascribed to additional losses incurred at the dogleg operation as well as a change in the geological data as a result of an update after 16 additional holes were drilled and updated in the geological model as well as the mining model.

## COAL RESERVES

Opencast mining at Vanggatfontein contributed to the 3.04mt ROM being extracted during FY18. The mine was visited on a regular monthly basis by Mr L Raaths. Mining operations are focused in the VG3 and VG4 mining areas for FY19 with the commencement of VG5 planned for FY20. Production is planned to fully utilise the plant capacity of 330kt, of which 280kt is planned for the Eskom plant and 50kt for the 5 Seam plant.

The current remaining reserves of 35.5mt ROM at the planned production rate provide for a nine-year LOM at Vanggatfontein.

Current projects are focused to increase the ROM reserve by focusing on low-quality thermal coal markets.

**Table 18: Vanggatfontein Reserve estimates**
as at 31 March 2018

| Vanggatfontein Reserve estimate 31 March 2018 | | | | | | Saleable qualities (5 Seam for 26MJ/kg, 4 and 2 Seam for Eskom 21.5 MJ/kg) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Project | Reserve category | Seam | Reserve block | MTIS (AD) mt | ROM (AR) mt | Saleable (AR) mt | Yield % | CV (AD) MJ/kg | Ash (AD) % | Vol (AD) % | TS (AD) % |
| Vanggatfontein Colliery opencast | Proved | 5 Seam | VG3 | 0.03 | 0.03 | 0.02 | 64 | 26.00 | 16.84 | 26.74 | 0.68 |
| | | | VG4 | 0.88 | 0.86 | 0.50 | 58 | 26.00 | 16.09 | 26.99 | 0.74 |
| | | | VG5 | – | – | – | – | – | – | – | – |
| | | Total 5 Seam | | 0.91 | 0.89 | 0.52 | 58 | 26.00 | 16.11 | 26.98 | 0.74 |
| | | 4 Seam | VG3 | 2.11 | 2.06 | 1.31 | 64 | 21.50 | 27.55 | 18.62 | 1.16 |
| | | | VG4 | 7.17 | 7.00 | 3.74 | 53 | 21.50 | 26.39 | 22.24 | 0.62 |
| | | | VG5 | 5.58 | 5.45 | 3.36 | 62 | 21.50 | 27.53 | 17.63 | 1.16 |
| | | Total 4 Seam | | 14.86 | 14.51 | 8.42 | 58 | 21.50 | 27.03 | 19.84 | 0.92 |
| | | 2 Seam | VG3 | 1.92 | 1.88 | 1.34 | 71 | 21.50 | 27.21 | 21.91 | 0.80 |
| | | | VG4 | 5.42 | 5.29 | 3.40 | 64 | 21.50 | 26.77 | 21.88 | 0.61 |
| | | | VG5 | 5.51 | 5.39 | 3.98 | 74 | 21.50 | 27.28 | 22.44 | 1.03 |
| | | Total 2 Seam | | 12.86 | 12.56 | 8.72 | 69 | 21.50 | 27.07 | 22.14 | 0.83 |
| | Total Proved | | | 28.63 | 27.96 | 17.66 | 63 | 21.63 | 26.73 | 21.18 | 0.87 |
| | Probable | 5 Seam | VG6 | 0.48 | 0.47 | 0.27 | 58 | 26.00 | 16.73 | 26.20 | 0.63 |
| | | | VG7 | – | – | – | – | – | – | – | – |
| | | Total 5 Seam | | 0.48 | 0.47 | 0.27 | 58 | 26.00 | 16.73 | 26.20 | 0.63 |
| | | 4 Seam | VG6 | 3.40 | 3.33 | 1.81 | 54 | 21.50 | 26.00 | 22.42 | 0.62 |
| | | | VG7 | – | – | – | – | – | – | – | – |
| | | Total 4 Seam | | 3.40 | 3.33 | 1.81 | 54 | 21.50 | 26.00 | 22.42 | 0.62 |
| | | 2 Seam | VG6 | 3.86 | 3.77 | 2.48 | 66 | 21.50 | 26.93 | 21.64 | 0.68 |
| | | | VG7 | – | – | – | – | – | – | – | – |
| | | Total 2 Seam | | 3.86 | 3.77 | 2.48 | 66 | 21.50 | 26.93 | 21.64 | 0.68 |
| | Total Probable | | | 7.75 | 7.56 | 4.56 | 60 | 21.77 | 25.95 | 22.22 | 0.65 |
| Total/average Vanggatfontein | | | | 36.37 | 35.52 | 22.22 | 63 | 21.66 | 26.57 | 21.40 | 0.83 |

## FUTURE WORK

- Relocating the powerline at VG3 to allow for drilling and blasting in VG3
- Preparation to proceed to implementation at VG5 which requires the following:
  - Acquiring surface rights or access to surface
  - Additional drilling to finalise boxcut position
  - Low-quality coal supply agreement
- Project work at VG6 to include the following:
  - Additional drilling in proposed boxcut area
  - Low-quality coal supply agreement
  - Surface rights or surface access agreements

## ENVIRONMENTAL MANAGEMENT AND CLOSURE FUNDING

In April 2018, SLR Consulting Africa Proprietary Limited ("SLR") was appointed by Keaton Mining Proprietary Limited to update the 2015 financial closure liability in line with the "Guideline Document for the evaluation of the Quantum of Closure-Related Financial Provision Provided by a mine as published by the Department of Minerals and Energy ("DME"), dated January 2015" ("DMR Guideline"). No detailed closure plan for Vanggatfontein has been developed and/or approved by the relevant authorities and as such, no detailed breakdown of costs for the closure activities for Vanggatfontein is available. In the absence of a closure plan, SLR has applied the 'rule-based' DMR methodology to estimate a generic closure liability quantum for Vanggatfontein. SLR has applied the generic rates for standard closure items, which are available in the DMR Mine Closure Guideline. The current financial closure liability associated with Vanggatfontein is R109.8 million (including VAT), an increase of R13 million from the 2017 estimate.

Keaton Mining Proprietary Limited has a financial guarantee in place to provide for the current closure liability quantum for Vanggatfontein in the event of unscheduled closure. The guarantee is provided by Centriq Insurance Innovation ("Centriq"), and is valued at R105.7 million as at March 2018.The guarantee is in the process of being updated to the new quantum.

## MATERIAL RISKS

Table 19: Vanggatfontein risks

| TYPE OF RISK | RISK | MITIGATION | LEVEL OF RISK |
|---|---|---|---|
| Low volatile coal | Default product not meeting current contractual requirements | Consider low-quality contracts | Medium |
| Rehabilitation | High volume out-of-pit waste dumps and rehandle – increased closure cost | Draft rehabilitation plan, minimising rehandle, optimising out-of-pit dumping | Medium |
| Infrastructure | Timing on moving of contractor infrastructure could impact VG4 production | Plan the infrastructure move timeously | Low |
| Surface rights | Acquiring VG5 surface rights could impact on the startup of pit | Timeous purchase of surface rights or surface access agreements | Low |

# MOABSVELDEN

## Moabsvelden is a development property situated in the Witbank Coalfield of South Africa. It is planned to be operated as a satellite pit of the neighbouring Vanggatfontein Colliery approximately 4 kilometres to the south along the district road.

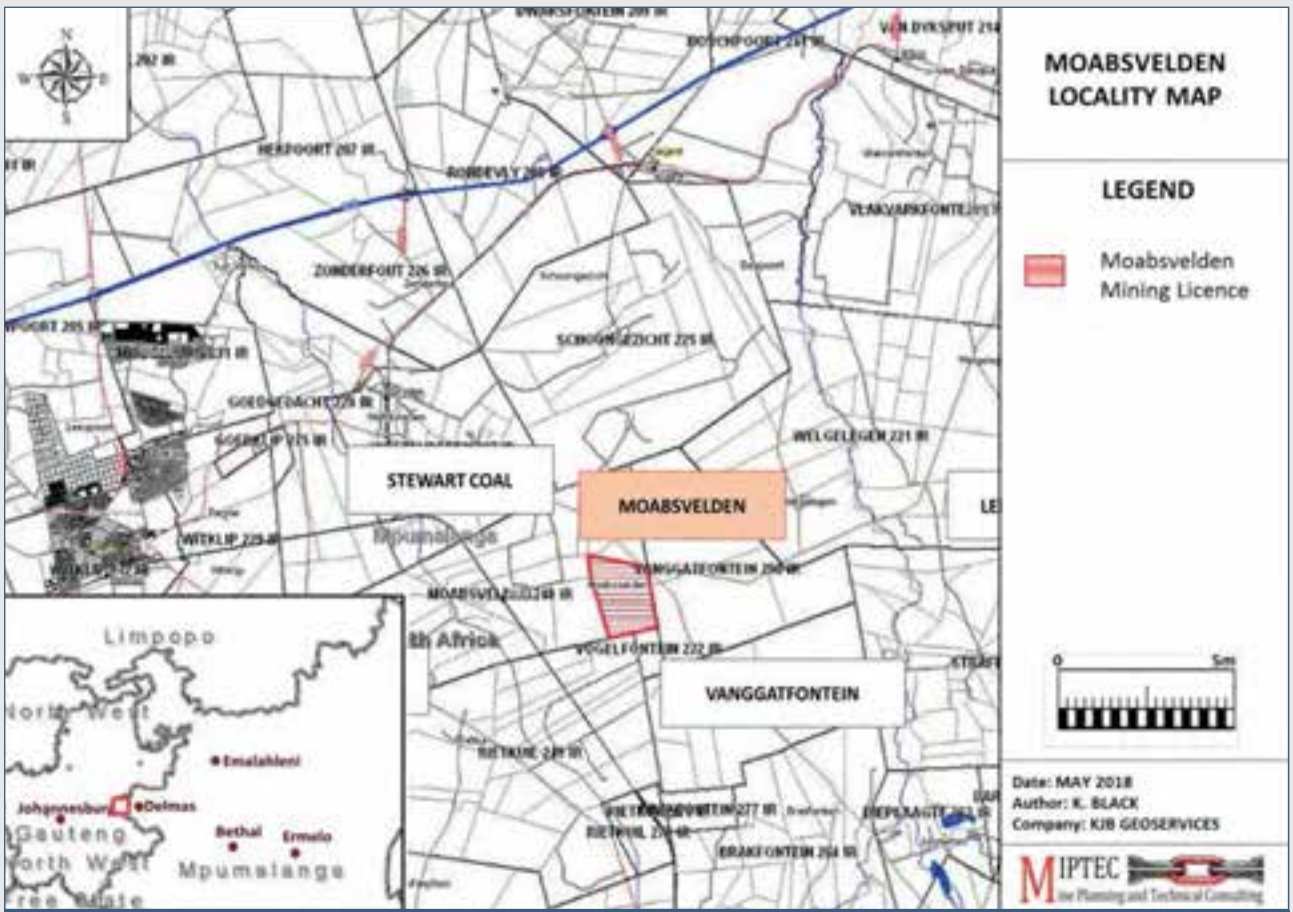



Figure 5. Moabsvelden Colliery locality map

Moabsvelden ROM will be processed through a dedicated coal handling and processing plant at the Vanggatfontein Colliery as well as through existing capacity within the 5 Seam plant.

Moabsvelden is located approximately 55 kilometres southwest of Emalahleni and approximately 77 kilometres east of Johannesburg. More specifically it is located approximately 15 kilometres east of the town of Delmas in the Mpumalanga Province of South Africa.

On 23 April 2013, the Moabsvelden Prospecting Right (No. F 2008/07/14/006) was successfully converted into an 18-year Mining Right (No. 10025 MR) when it was issued in the name of Neosho Trading, 86 Proprietary Limited (registration No. 2008/010470/07). The Mining Right covers an area of 249.4ha and was issued in terms of section 23(1) of the Mineral and Petroleum Resources Development Act, 2002 (Act 28 of 2002) with an effective date of 16 October 2013, expiring on 15 October 2031.

## RESOURCES

A geological, structural and coal quality model was constructed by GEMECs using Gemcom Minex™, an appropriate geological modelling software package which provides geology and mine planning tools for coal and other tabular deposits. All seven of the Moabsvelden coal plies (SM, SBA, SBB, SBC, SBD, SBE and SBF) and affiliated parting bands (SBP1, SBP2 and SBP3) were modelled with the boundaries dictated by the occurrence of the plies and the Moabsvelden legal boundaries. All qualities were reported by GEMECs on an air-dried uncontaminated basis.

As no recent work has been completed over Moabsvelden subsequent to the 2017 CPR compiled by Venmyn Deloitte, the Resource estimate for 2018 remains unchanged.

GTIS Coal Resources were estimated from the geological model by applying 0.5m seam thickness cut-off, with coal below the Limit of Weathering to ensure fresh coal only. All coal included into resources has a dry ash-free volatile content greater than 27% and ash content of less than 50%. A 15% geological loss was applied to calculate MTIS for Measured resources. All coal resources were within the Mining Right boundaries, exclusive of the 9m boundary pillar and the 100m protective zones around the wetlands.

**Table 20: Moabsvelden Resource estimate**
as at 31 March 2018 (100% attributable)

| | Coal Resource (MTIS) (AD) (74% Wescoal attributable) | | | | Raw coal quality (AD) | | | |
|---|---|---|---|---|---|---|---|---|
| | Inferred mt | Indicated mt | Measured mt | Total mt | CV (AD) MJ/kg | Ash (AD) % | VM (AD) % | TS (AD) % |
| Moabsvelden project opencast | – | – | 47.8 | 47.8 | 21.15 | 24.07 | 22.96 | 0.65 |
| SM | | | 2.77 | 2.77 | 21.10 | 27.27 | 27.84 | 0.71 |
| Total Seam 5 | – | – | 2.77 | 2.77 | 21.10 | 27.27 | 27.84 | 0.71 |
| SBA | | | 1.02 | 1.02 | 21.30 | 19.82 | 27.46 | 2.61 |
| SBB | | | 8.46 | 8.46 | 21.00 | 26.27 | 23.27 | 0.57 |
| SBC | | | 11.49 | 11.49 | 21.00 | 23.05 | 22.37 | 0.75 |
| Total Seam 4 | – | – | 20.97 | 20.97 | 21.01 | 24.19 | 22.98 | 0.77 |
| SBD | | | 9.97 | 9.97 | 21.10 | 24.59 | 21.25 | 0.32 |
| SBE | | | 10.21 | 10.21 | 21.57 | 21.28 | 22.99 | 0.79 |
| Total Seam 2 | – | – | 20.18 | 20.18 | 21.34 | 22.91 | 22.13 | 0.56 |
| SBF | | | 3.86 | 3.86 | 21.00 | 27.12 | 23.68 | 0.42 |
| Total Seam 1 | – | – | 3.86 | 3.86 | 21.00 | 27.12 | 23.68 | 0.42 |

## COAL RESERVES

The Coal Reserves for Moabsvelden, as at 31 January 2017, were independently estimated, classified and signed off by Mr L Raaths, currently in the employ of Miptec. No further changes were applied to the geological model during the update on the Moabsvelden Coal Resources which underpinned the update to the Coal Reserves in accordance with the SAMREC Code as of 31 January 2017 by Miptec, and therefore the Reserve estimate remains unchanged. The Moabsvelden Coal Reserves have been declared on an AR basis.

Coal resources formed the basis for the reserves, Reserve estimate was based on a total loss of 14%, contamination of 4% and the As Received tonnages based on additional 4% moisture.

Table 21: Moabsvelden Reserve estimate
as at 31 March 2018

| Moabsvelden Reserve estimate 31 March 2018 (74% Wescoal attributable) | | | | | | Saleable qualities (all seams washed for minimum 19.5 MJ/kg) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Project | Reserve category | Seam | Reserve block and PLY | MTIS (AD) mt | ROM (AR) mt | Saleable (AR) mt | Yield % | CV (AD) MJ/kg | Ash (AD) % | Vol (AD) % | TS (AD) % |
| Moabsvelden project opencast | Proved | 5 Seam | MV1-SM | 1.71 | 1.67 | 1.30 | 78 | 19.54 | 33.02 | 25.03 | 0.99 |
| | | | MV2-SM | 1.12 | 1.09 | 0.60 | 55 | 19.50 | 33.39 | 23.36 | 0.64 |
| | | Total 5 Seam | | 2.83 | 2.76 | 1.90 | 69 | 19.53 | 33.14 | 24.50 | 0.88 |
| | | 4 Seam | MV1-BA | 0.56 | 0.55 | 0.45 | 82 | 20.04 | 33.61 | 27.55 | 2.45 |
| | | | MV1-BB | 3.81 | 3.72 | 1.00 | 27 | 19.50 | 30.82 | 21.69 | 0.47 |
| | | | MV1-BC | – | 4.50 | 4.05 | 90 | 21.32 | 25.77 | 22.86 | 1.07 |
| | | | MV2-BA | – | 0.61 | 0.45 | 73 | 21.40 | 29.50 | 27.04 | 3.52 |
| | | | MV2-BB | – | 3.60 | 1.11 | 31 | 19.50 | 30.72 | 19.59 | 0.42 |
| | | | MV2-BC | – | 3.76 | 3.38 | 90 | 20.81 | 27.06 | 20.27 | 1.16 |
| | | Total 4 Seam | | 4.37 | 16.73 | 10.43 | 62 | 20.74 | 27.69 | 21.94 | 1.14 |
| | | 2 Seam | MV1-BD | 3.76 | 3.68 | 2.06 | 56 | 19.50 | 30.60 | 21.59 | 0.48 |
| | | | MV1-BE | 3.77 | 3.69 | 3.27 | 89 | 21.28 | 26.98 | 23.49 | 0.83 |
| | | | MV2-BD | – | 3.68 | 2.24 | 61 | 19.50 | 30.39 | 21.26 | 0.54 |
| | | | MV2-BE | 3.02 | 2.94 | 2.51 | 85 | 20.74 | 28.74 | 21.50 | 0.83 |
| | | Total 2 Seam | | 10.55 | 13.99 | 10.08 | 72 | 20.39 | 28.92 | 22.11 | 0.69 |
| | | 1 Seam | MV1-BF | 1.56 | 1.52 | 1.18 | 78 | 19.66 | 31.59 | 20.96 | 0.60 |
| | | | MV2-BF | 0.92 | 0.90 | 0.71 | 79 | 19.84 | 31.62 | 20.32 | 0.89 |
| | | Total 1 Seam | | 2.48 | 2.43 | 1.89 | 78 | 19.72 | 31.60 | 20.72 | 0.71 |
| | Total Proved | | | 20.23 | 35.9 | 24.29 | 68 | 20.42 | 28.93 | 22.12 | 0.90 |
| | Probable | 5 Seam | MV3-SM | 0.14 | 0.14 | 0.05 | 36 | 19.50 | 32.22 | 26.45 | 0.79 |
| | | Total 5 Seam | | 0.14 | 0.14 | 0.05 | 36 | 19.50 | 32.22 | 26.45 | 0.79 |
| | | 4 Seam | MV3-BA | 0.10 | 0.09 | 0.07 | 69 | 21.10 | 30.00 | 22.84 | 2.37 |
| | | | MV3-BB | – | 1.07 | 0.35 | 32 | 19.50 | 32.06 | 15.17 | 0.31 |
| | | | MV3-BC | 1.02 | 1.00 | 0.70 | 70 | 20.41 | 28.05 | 19.62 | 0.97 |
| | | Total 4 Seam | | 1.12 | 2.17 | 1.11 | 51 | 20.17 | 29.41 | 18.43 | 0.85 |
| | | 2 Seam | MV3-BD | 0.64 | 0.62 | 0.51 | 82 | 19.50 | 29.49 | 21.56 | 0.61 |
| | | | MV3-BE | 0.85 | 0.83 | 0.75 | 90 | 21.15 | 27.30 | 21.86 | 0.70 |
| | | Total 2 Seam | | 1.48 | 1.45 | 1.26 | 87 | 20.48 | 28.19 | 21.74 | 0.66 |
| | | 1 Seam | MV3-BF | 0.20 | 0.20 | 0.14 | 70 | 19.50 | 32.93 | 19.71 | 0.56 |
| | | Total 1 Seam | | 0.20 | 0.20 | 0.14 | 70% | 19.50 | 32.93 | 19.71 | 0.56 |
| | Total Probable | | | 2.95 | 3.95 | 2.56 | 65% | 20.27 | 29.05 | 20.28 | 0.74 |
| Total/average Moabsvelden opencast | | | | 23.17 | 39.9 | 26.85 | 67% | 20.40 | 28.94 | 21.94 | 0.89 |

The attributable resources and reserves were all based on a 100% basis except for Moabsvelden that is only 74% attributable.

## ENVIRONMENTAL

No work has commenced at Moabsvelden as the surface right is still in the name of Phylem Beleggings (Stuart Coal).

The SLR in April 2016 estimated a generic quantum for closure, for which no detail breakdown of costs is available. Keaton Energy Holdings Limited had a financial guarantee in place with Centric, valued at R20 million as at September 2016. This is still in place as at March 2018.

# STERKFONTEIN

The Sterkfontein project (Sterkfontein) is situated on the Highveld Coalfield in South Africa. It extends over portions of ten farms and covers a footprint measuring approximately 16 kilometres in a north-south direction and approximately 9 kilometres in an east-west direction for a total area of 7 926ha.

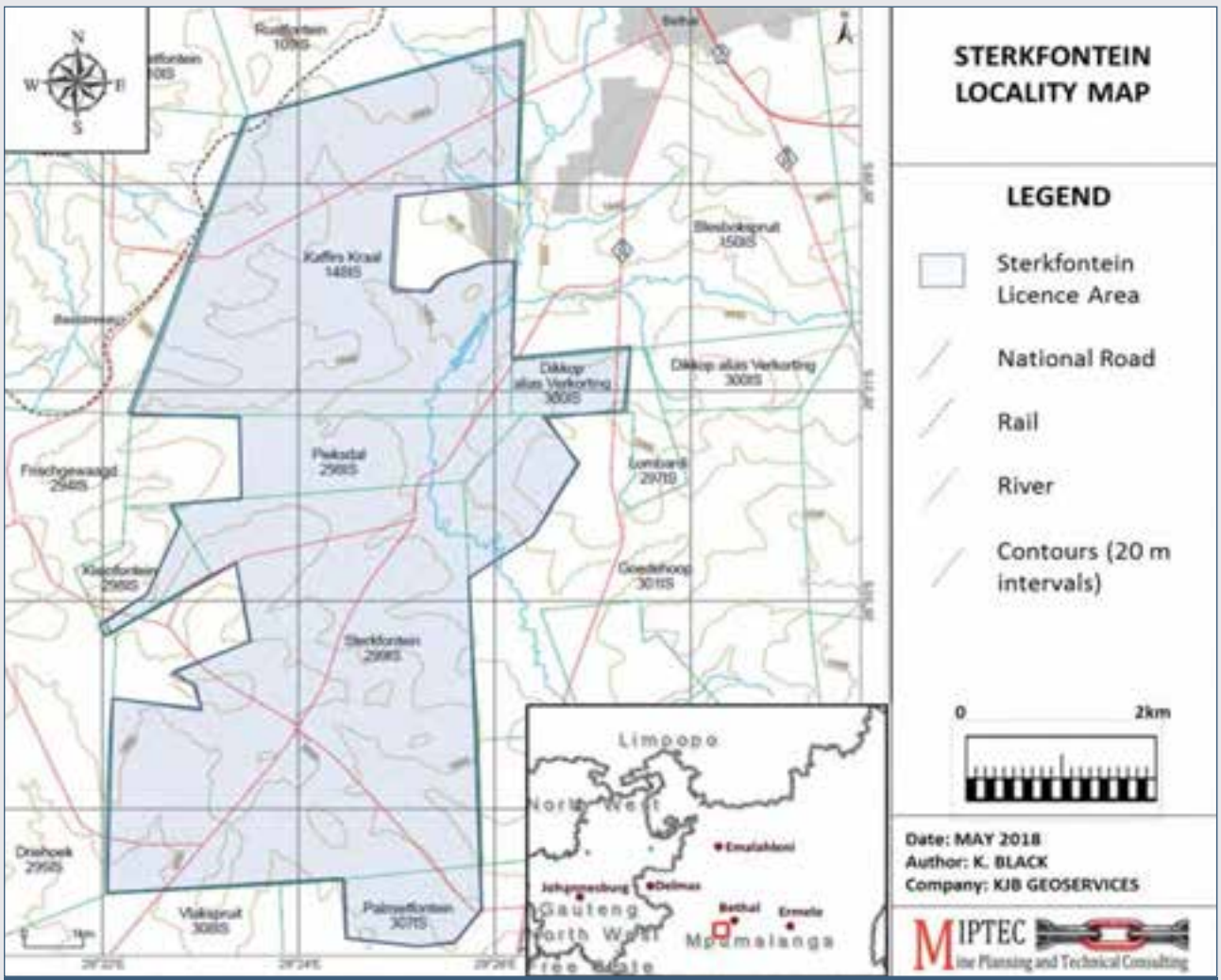



Figure 6. Sterkfontein locality map

Sterkfontein targets the No.4 Lower (No.4L) and No.4 Upper (No.4U) Seams of the Highveld Coalfield. It is planned for the Sterkfontein coal to be mined using an underground bord and pillar method with the use of continuous miners. The coal is intended to be processed using a double-stage circuit to produce a primary export thermal product and a middlings product for potential sale to Eskom. A number of alternative product scenarios are being investigated.

The northern edge of the Sterkfontein project is located approximately 5 kilometres south-west of the town of Bethal (Figure 6) in the Mpumalanga Province of South Africa, approximately 149 kilometres east south-east of Johannesburg. The nearest main centre is the town of Ermelo, approximately 56 kilometres east of Bethal.

The Sterkfontein project comprises five prospecting rights held in the names of Keaton Mining and Labohlano Trading 46 Proprietary Limited ("Labohlano").

The farm properties which constitute Sterkfontein are illustrated in Figure 6 above. Prospecting Rights MP 30/5/1/1/2/443 PR and MP 30/5/1/1/2/444 PR, held by Keaton Mining, were both renewed on 26 November 2014 and now expire in November 2017.

Prospecting Right MP 30/5/1/1/2/1827 PR, held by Keaton Mining, remains valid until December 2017. Prospecting Right MP 30/5/1/1/2/2053 PR, also held by Keaton Mining, expired in December 2015. The application for renewal was submitted to the DMR timeously and remained in process at the date of this report.

Prospecting Right MP 30/5/1/1/2/1720 PR is held by Labohlano. The Prospecting Right was renewed in 2014 and will now expire in November 2017. KEHL applied for two mining rights in December 2017 with a simultaneous section 102 that will consolidate the Mining Rights into one Mining Right once granted.

## COAL RESOURCES

The Coal Resource estimates for Sterkfontein were most recently compiled by Dr EA Schneiderhan of CCIC Coal and included in the 31 January 2017 CPR compiled by Venmyn Deloitte entitled "Independent Competent Persons Report on the Coal Assets of Keaton Energy Holdings Limited". As no recent work has been conducted on the Sterkfontein project, the resource estimates contained in this report are as per the 2017 Venmyn Deloitte CPR.

The coal seams within the Sterkfontein project area are defined as multiple seam type as per SANS10320:2004. Whilst both the No. 5 and No. 4 Seams of the Highveld Coalfield are present, the main economic target is however only the No. 4 (Upper and Lower) Seam.

For the Coal Resource estimate, a minimum seam thickness of 1.4m has been used as a minimum practical mining height of a Joy 14HM15 continuous miner and/or conventional drill and blast mining.

A minimum cut-off of 50% ash and 24% DAFVOL (to account for devolatilised coal as per the SANS10320:2004 guidelines) has been applied to all estimated coal resources. In order to convert GTIS to TTIS geological losses of 10% and 15% have been applied to account for unexpected projected losses due to dolerite intrusions, geological structure and geological complexity. No modelling error was applied. The application of a 1.4m mining height was used to estimate the MTIS.

Table 22: Sterkfontein project Resource estimation
as at 31 March 2018 (100% attributable)

| | Coal Resource (MTIS) (AD) | | | | Raw coal quality (AD) | | | |
|---|---|---|---|---|---|---|---|---|
| | Inferred mt | Indicated mt | Measured mt | Total mt | CV (AD) MJ/kg | Ash (AD) % | VM (AD) % | TS (AD) % |
| Sterkfontein project underground | 40.64 | 50.29 | – | 90.93 | 19.86 | 31.32 | 25.66 | 1.33 |
| Block 3 | – | 50.29 | – | 50.29 | 20.79 | 29.31 | 26.13 | 1.42 |
| 4U Seam | | 0.99 | | 0.99 | 18.89 | 33.23 | 21.13 | 1.80 |
| 4L Seam | | 49.30 | | 49.30 | 20.83 | 29.23 | 26.23 | 1.41 |
| Block 2A | 22.87 | – | – | 22.87 | 19.82 | 31.05 | 26.09 | 1.23 |
| 4U Seam | 0.12 | | | 0.12 | 20.68 | 28.48 | 25.93 | 1.59 |
| 4L Seam | 22.75 | | | 22.75 | 19.82 | 31.06 | 26.09 | 1.23 |
| Block 2B | 10.65 | – | – | 10.65 | 18.95 | 33.30 | 24.61 | 1.50 |
| 4U Seam | | | | – | | | | |
| 4L Seam | 10.65 | | | 10.65 | 18.95 | 33.30 | 24.61 | 1.50 |
| Block 1 | 7.12 | – | – | 7.12 | 14.74 | 43.39 | 22.53 | 0.71 |
| 4U Seam | | | | – | | | | |
| 4L Seam | 7.12 | | | 7.12 | 14.74 | 43.39 | 22.53 | 0.71 |

## COAL RESERVES

No current coal reserves have been declared for Sterkfontein.

# BRAAKFONTEIN

## The Braakfontein Project ("Braakfontein") is an advanced-stage exploration property. Braakfontein is situated on the Klip River Coalfield in South Africa. It extends over portions of three farms and covers a total area of 1 951.66ha.

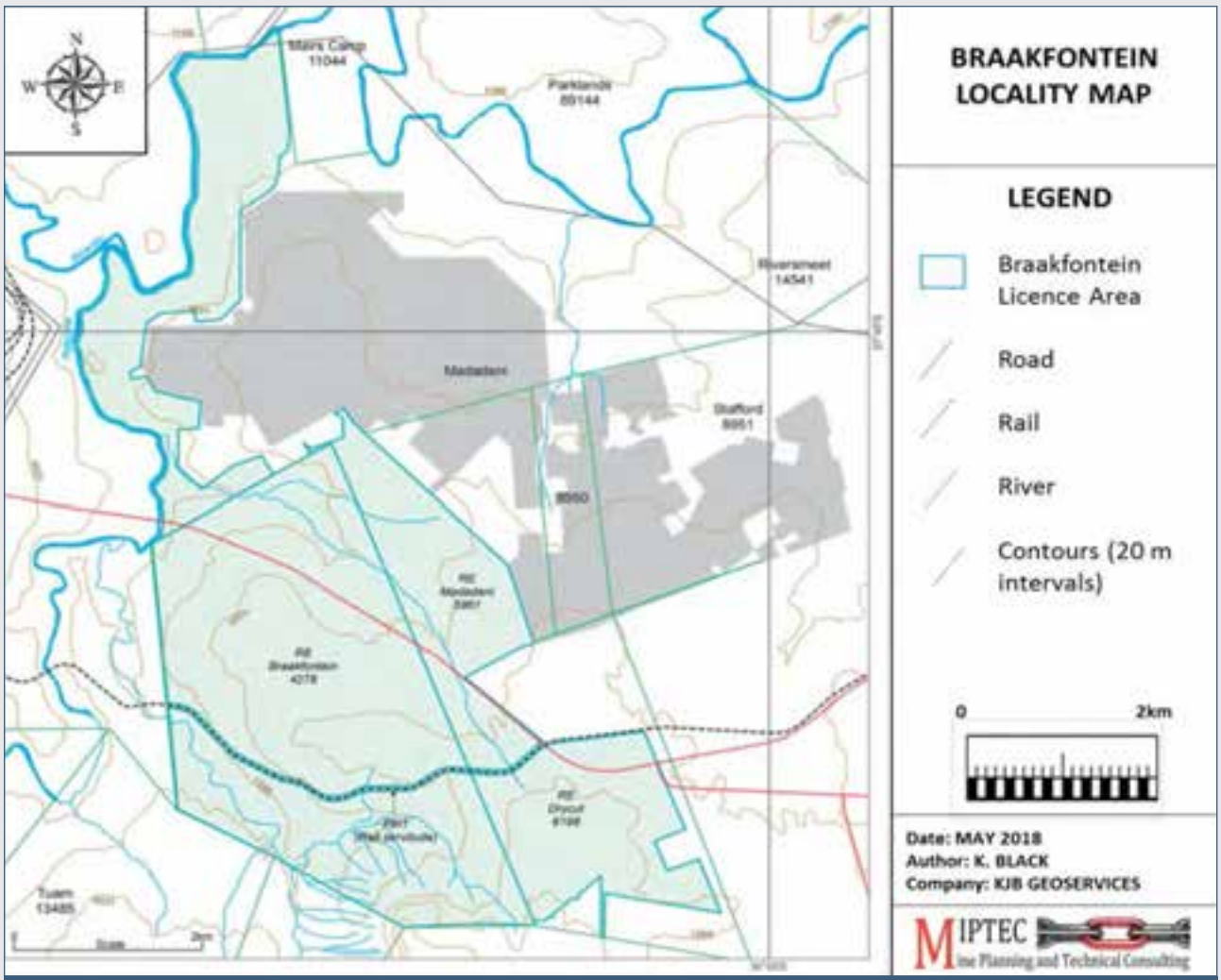



Figure 7. Braakfontein locality plan

Braakfontein targets the Top and Bottom Seams of the Klip River Coalfield. It is planned for the Braakfontein coal to be mined using predominantly underground mining methods, making use of the bord and pillar mining method, with the use of continuous miners. Shallow coal on the flanks of the coal resource area have potential to be extracted using opencast methods. The coal is planned to be processed using a double-stage process targeting a primary export thermal product and a middlings product for potential sale to Eskom. A number of alternative product scenarios are being investigated.

Braakfontein is located approximately 10 kilometres east-southeast of the town of Newcastle (Figure 7) in the KwaZulu-Natal province of South Africa. The project is situated approximately 30 kilometres southwest of Utrecht, approximately 80 kilometres south of Volksrust, approximately 120 kilometres west of Vryheid and approximately 60 kilometres north of the coal mining town of Dundee.

Braakfontein is 100% owned by Leeuw Braakfontein Colliery Proprietary Limited ("LBC"), which is a 100% owned subsidiary of Keaton Mining Proprietary Limited.

Braakfontein comprises a single Mining Right (KZN 30/5/1/2/2/143 MR) issued to LBC (figure 7). Venmyn Deloitte has reviewed a copy of this Mining Right. The Mining Right was executed on 29 August 2007 and unless cancelled or suspended in terms of clause 13 of the Mining Right, or section 47 of the MPRDA (Act 28 of 2002), will continue in force for a period of 30 years, ending on 28 August 2037.

Keaton Energy Holdings Limited holds an approved EMP (dated 29 August 2007) and Mining Right (Ref No. KZN 30/5/1/2/2/143 MR), which was awarded to LBC on 29 August 2007. This Mining Right will continue in force for a period of 30 years. However, operations at Braakfontein have not yet recommenced since the first boxcut excavation in 2008. An EMP amendment will have to be conducted should KEHL plan to proceed with activities. Keaton Energy Holdings Limited does not have an environmental authorisation at this stage. The EMP amendment process will have to run concurrently with the NEMA EIA in line with the One Environmental System through the DMR.

The current financial closure liability associated with Braakfontein is R4.1 million.

## RESOURCES

The Coal Resource estimates for Braakfontein were most recently compiled by Dr EA Schneiderhan of CCIC Coal and included in the 31 January 2017 CPR compiled by Venmyn Deloitte entitled "Independent Competent Persons Report on the Coal Assets of Keaton Energy Holdings Limited". As no recent work has been conducted on the Braakfontein project, the resource estimates contained in this report, are as per the 2017 Venmyn Deloitte CPR.

**Table 23: Braakfontein Resource estimate**
as at 31 March 2018 (100% attributable)

| | Coal Resource (MTIS) (AD) | | | | Raw coal quality (AD) | | | |
|---|---|---|---|---|---|---|---|---|
| | Inferred mt | Indicated mt | Measured mt | Total mt | CV (AD) MJ/kg | Ash (AD) % | VM (AD) % | TS (AD) % |
| Braakfontein project | – | 60.06 | – | 60.06 | 23.01 | 28.74 | 22.34 | 1.62 |
| Top Seam opencast | – | 6.90 | – | 6.90 | 21.96 | 31.21 | 20.76 | 1.95 |
| BFN | | 4.65 | | 4.65 | 21.53 | 31.52 | 21.11 | 1.85 |
| SWT | | 0.37 | | 0.37 | 22.96 | 30.02 | 21.29 | 2.13 |
| DCT | | 1.89 | | 1.89 | 22.83 | 30.69 | 19.81 | 2.17 |
| Top Seam underground | – | 29.73 | – | 29.73 | 22.86 | 29.56 | 22.17 | 1.86 |
| BFN | | 24.61 | | 24.61 | 22.87 | 29.57 | 22.29 | 1.81 |
| SWT | | 3.38 | | 3.38 | 22.66 | 29.99 | 21.21 | 2.04 |
| DCT | | 1.75 | | 1.75 | 23.15 | 28.57 | 22.29 | 2.14 |
| Bottom Seam opencast | – | 4.53 | – | 4.53 | 23.15 | 28.00 | 22.68 | 1.28 |
| BFN | | 3.01 | | 3.01 | 23.19 | 27.30 | 23.86 | 1.40 |
| SWT | | 0.49 | | 0.49 | 21.83 | 32.16 | 21.45 | 1.17 |
| DCT | | 1.04 | | 1.04 | 23.68 | 28.07 | 19.82 | 1.00 |
| Bottom Seam underground | – | 18.90 | – | 18.90 | 23.59 | 26.73 | 23.12 | 1.22 |
| BFN | | 15.00 | | 15.00 | 23.59 | 26.60 | 23.43 | 1.23 |
| SWT | | 2.78 | | 2.78 | 23.51 | 27.15 | 22.21 | 1.31 |
| DCT | | 1.12 | | 1.12 | 23.84 | 27.36 | 21.22 | 0.92 |

For the Coal Resource estimate, a minimum seam thickness of 1.4m has been used as a minimum practical mining height of a Joy 14HM15 continuous miner and/or conventional drill and blast mining. A minimum seam thickness of > 0.5m was used for the opencast resources, and a strip ratio of < 6:1 was applied.

A minimum cut-off of 50% ash and 24% DAFVOL (to account for devolatilised coal as per the SANS10320:2004 guidelines) has been applied to all estimated Coal Resources. In order to convert GTIS to TTIS geological losses of 20% have been applied to account for unexpected projected losses due to dolerite intrusions, geological structure and geological complexity. No modelling error was applied. The application of a 1.4m mining height was used to estimate the MTIS.

## COAL RESERVES

No current Coal Reserves have been declared for Braakfontein.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# ANNUAL FINANCIAL STATEMENTS

## LEVEL OF ASSURANCE

These consolidated annual financial statements have been audited in compliance with the applicable requirements of the Companies Act, No 71 of 2008.

## PREPARER

The consolidated annual financial statements were independently compiled under the supervision of IJ van der Walt CA(SA).

## PUBLISHED

26 June 2018

# DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors are required in terms of the Companies Act, No 71 of 2008 ("the Companies Act"), to maintain adequate accounting records and are responsible for the content and integrity of the consolidated annual financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated annual financial statements fairly present the state of affairs of the group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards ("IFRS"). The external auditors are engaged to express an independent opinion on the consolidated annual financial statements.

The consolidated annual financial statements are prepared in accordance with IFRS and are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

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

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

The directors have reviewed the group's cash flow forecast for the year to 31 March 2019 and, in light of this review and the current financial position, they are satisfied that the group has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the group's consolidated annual financial statements. The consolidated annual financial statements have been examined by the group's external auditors and their report is presented on pages 97 to 101.

The consolidated annual financial statements, set out on pages 102 to 167, which have been prepared on the going-concern basis, were approved by the board on 26 June 2018 and were signed on its behalf by:

Waheed Sulaiman
*Chief executive officer*

Izak van der Walt
*Chief financial officer*

26 June 2018

# DECLARATION BY THE COMPANY SECRETARY

In terms of section 88(2) (e) of the Companies Act, I hereby certify that, to the best of my knowledge and belief, Wescoal Holdings Limited has lodged with the Companies and Intellectual Property Commission, for the financial year ended 31 March 2018, all such returns and notices as required in terms of the Companies Act, and that all such returns and notices are true, correct and up to date.

Vikesh Dhanooklal
*Company secretary*

26 June 2018

# DIRECTORS' REPORT

The directors submit their report for the year ended 31 March 2018.

**Major shareholders of the company**

| | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|
| Shareholder | Number of shares | % of shares | Number of shares | % of shares |
| K2016316243 (SA) Proprietary Limited | 213 628 122 | 47.70 | 213 628 122 | 58.93 |
| UBS Switzerland AG | 23 545 923 | 5.26 | – | – |
| Rutendo Holdings Proprietary Limited | 20 180 642 | 4.51 | – | – |
| Peregrine Group | 14 258 248 | 3.18 | 17 504 143 | 4.83 |
| Wescoal Share Incentive Trust | 10 189 000 | 2.27 | 12 504 000 | 3.45 |

The percentage of share calculation is based on the issued share capital of 447 875 561, excluding shares bought back.

There were no changes to the shareholding of the major shareholders between year-end and the date of the financial statements.

## REVIEW OF ACTIVITIES

### Main business and operations

The main business of the company is that of an investment and management company with operating subsidiaries engaged in the mining, processing and trading of coal. The group operates principally in South Africa. The operating results and state of affairs of the group and company are fully set out in the annual financial statements and do not, in our opinion, require any further comment.

The group made a net profit after tax of R202.01 million (2017: R30.2 million).

Detail of operating segments in terms of IFRS 8 is disclosed in note 43.

## GOING CONCERN

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

## POST-FINANCIAL YEAR-END EVENTS

Subsequent to year-end the group embarked on a process and commenced negotiations to dispose of non-core assets, including assets acquired as part of the Keaton acquisition. This is in line with the group's strategy of realising value for shareholders and building a scalable, sustainable business.

The board of directors' in considering the group's financial position and strong annual performance, resolved to declare R35 million (7.78 cents per ordinary share) to shareholders as a final dividend for the year. This is the fifth consecutive dividend payment to shareholders as the company sustains progressive increase of dividend amidst continued rapid growth trend.

The directors are not aware of any matters or circumstances arising since the end of the financial year relevant to an assessment of the consolidated annual financial statements at 31 March 2018.

## DIRECTORS' INTEREST IN CONTRACTS

During the year ended 31 March 2018, none of the directors had any interest in any contract or arrangement entered into by the company or its subsidiaries.

## COMPLIANCE WITH FINANCIAL REPORTING STANDARDS

The Wescoal group and company consolidated annual financial statements comply with IFRS, the South African Companies Act and the JSE Listings Requirements.

## SHARE INCENTIVE SCHEME

The directors are authorised to issue, allot and grant options to acquire up to a maximum of 29 186 272 ordinary shares of the issued share capital of the company in terms of the Share Incentive Scheme. By 31 March 2018, a cumulative total of 20 994 000 (2017: 19 150 000) share options (net of forfeited options) had been allotted to employees of the group, of which 11 725 000 (2017: 9 410 000) had been exercised. At 31 March 2018, unexercised share options under the scheme amounted to 9 269 000 (2017: 9 740 000), representing 2.06% (2017: 2.69%) of the issued shares of the group.

Options are exercisable in five equal tranches, annually on the anniversary date of the options. The market value of shares relating to share options outstanding at year-end amounts to R15 479 230 (2017: R22 207 200). Options granted to

employees have a five-year contractual life and are forfeited if not exercised on termination of employment.

The Wescoal Share Incentive Trust is consolidated into the group and company. The shares held by the trust are treated as treasury shares in the group and company. Please refer to notes 18 and 25 for more information.

## BORROWING LIMITATIONS

In terms of the Memorandum of Incorporation ("MoI") of the company, the directors may exercise all the powers of the company to borrow money, as they consider appropriate.

## SHARE CAPITAL

### Authorised

There was no change in the authorised share capital of the company during the year. The authorised share capital of the company is 500 000 000 ordinary no par value shares.

### Issued

The movement of shares during the year was as follows:

| | 2018 |
|---|---|
| Reported as at 1 April 2017 | 362 528 951 |
| Issue of shares (Keaton acquisition) | 87 380 876 |
| Total shares as at 31 March 2018 | 449 909 827 |
| *Less:* Treasury shares in share trust | (10 189 000) |
| *Less:* Share buy-back | (2 034 266) |
| Net shares in issue at 31 March 2018 | 437 686 561 |

In terms of the authority granted by shareholders at the last annual general meeting held, all of the authorised but unissued share capital is placed under the control of the directors as a general authority to them in order to allot and issue the same at their discretion in terms of the company's MoI and the JSE Listings Requirements. This authority expires at the next annual general meeting where shareholders will be asked to renew this authority.

Shareholders also granted the directors authority at the last annual general meeting held to allot and issue for cash, without restriction, authorised but unissued ordinary shares in the capital of the company placed under their control as they in their discretion may deem fit, subject to the following:

- Issue shall be to public shareholders and not related parties;
- Paid press release be published at the time detailing certain financial effects;
- That issues in the aggregate not exceed 15% of number of shares of the company's issued share capital;
- Equity securities must be of a class already in use;
- Maximum discount permitted is 10% of weighted average traded price of shares over 30 business days prior to issue; and
- Authority expires 15 months from last annual general meeting or next annual general meeting, whichever is the earlier date.

## KEATON ACQUISITION

On 2 February 2017, the company announced its firm intention offer to acquire all of the issued ordinary share capital of Keaton Energy Holdings Limited ("Keaton Energy"). Both the company and Keaton Energy advised their shareholders on 20 June 2017 that all scheme conditions had been fulfilled and that the scheme had become unconditional on that date.

The consideration payable by Wescoal to Keaton Energy shareholders was R1.80 per Keaton share, settled partly in cash (R1.20 per Keaton share) and partly in Wescoal ordinary shares. The share component was settled by Wescoal in the ration of 0.30 Wescoal ordinary shares for every 1.00 Keaton share held. On completion of the transaction, Keaton Energy became a wholly owned subsidiary of the company on 20 June 2017 and delisted from the JSE on 30 June 2017. Refer to note 24.

## SHARE BUY-BACK

During the period 22 December 2017 through 15 March 2018, the company purchased 2 034 266 of its ordinary shares on-market at an average price of R1.77 per share. The buy-back was approved by shareholders at the last annual general meeting. The shares will be cancelled in due course. Refer to note 18.

## CORPORATE GOVERNANCE

The directors acknowledge the importance of sound corporate governance and the guidelines set out in the report of the King Commission on Corporate Governance for South Africa ("the Code"). The directors therefore embrace the Code as far as it is appropriate, having regard for the size and nature of the various companies making up the group. The board will continue to take such measures as are practicable to comply with the Code.

## DIVIDEND

During the year ended 2018, the board resolved to declare a R14 million interim dividend to shareholders (3.11 cents per ordinary share). This interim dividend, as well as the 2017 final dividend of R12 million (2.67 cents per ordinary share), was paid out during the 2018 financial year.

## LISTING

The abbreviated name under which the company is listed on the main board of the JSE Limited is "Wescoal" and the short code is "WSL".

## DIRECTORS

The directors of the company during the reporting period were as follows:

| Name | | Nationality |
|---|---|---|
| MR Ramaite *(Chairman)* | | South African |
| JG Pansegrouw | | South African |
| DMT van Gaalen | | Costa Rican |
| KM Maroga | | South African |
| HLM Mathe | | South African |
| W Sulaiman *(Chief executive officer)* | | South African |
| T Tshithavhane | | South African |
| IJ van der Walt *(Chief financial officer)* | Appointed 1 September 2017 | South African |
| B Mazarura | Resigned 31 August 2017 | Zimbabwean |
| C Maswanganyi *(Non-executive)* | Appointed 17 November 2017 | South African |
| ET Mzimela *(Non-executive)* | Appointed 17 November 2017 | South African |

## COMPANY SECRETARY

Vikesh Dhanooklal and Computershare Investor Services Proprietary Limited are the company secretary and transfer secretary respectively.

## LITIGATION STATEMENTS

On 31 March 2016, the group received a statement of claim, which commenced the pleadings in the arbitration proceedings pertaining to a dispute of certain provisions of a coal transportation agreement concluded on 8 October 2014.

The group disclaimed the liability and the arbitration claim was dismissed with costs on 21 October 2016.

On 1 December 2016, the group received a notice of motion commencing review proceedings in the High Court, Gauteng Local Division, Johannesburg, to set the arbitration award aside. The company opposed the review proceedings and on 20 November 2017, the High Court dismissed the claimant's application with costs.

Refer to note 40 for further detail regarding pending litigation.

The directors are not aware of any other major litigation or intended litigation against the company.

## RESOLUTIONS

The following resolutions were approved by shareholders at an annual general meeting of the company held on 14 November 2017:

### Ordinary resolutions

- Reappointment of Ms DMT van Gaalen and Mr JG Pansegrouw
- Appointment of Mr IJ van der Walt as director
- Appointment of audit committee members Ms KM Maroga, Mr JG Pansegrouw and Ms DMT van Gaalen
- The appointment of PricewaterhouseCoopers Inc as independent external auditors of the company
- To place the authorised and unissued ordinary share capital under the control of the directors of the company to allot and issue at their discretion in terms of the company MoI and JSE Listings Requirements
- To authorise the directors of the company to issue unissued, but authorised shares, for cash, subject to conditions
- The endorsement, through a non-binding advisory vote, and to ascertain the shareholders' view on the remuneration policy and its implementation

### Special resolutions

- The authorisation of non-executives directors' remuneration
- The authorisation of financial assistance to all related or inter-related companies
- The general approval to repurchase company shares

## INTEREST IN SUBSIDIARIES

| Name of subsidiary | Percentage holding % | Net income/ (loss) after tax R'000 |
|---|---|---|
| Wescoal Trading Proprietary Limited | 100 | 35 922 |
| Wescoal Mining Proprietary Limited | 100 | 125 136 |
| Wescoal Mineral Recoveries Proprietary Limited | 100 | (6) |
| Blanford 006 Proprietary Limited | 100 | 1 238 |
| Wescoal Exploration Proprietary Limited | 100 | – |
| Proudafrique Trading 147 Proprietary Limited | 100 | (4 572) |
| (JJP) Res Ged 2 Van Plaas Vlakvarkfontein 213 Proprietary Limited | 100 | (5) |
| (JJP) Ged 6 (Van Ged 2) Van Plaas Vlakvarkfontein 213 Proprietary Limited | 100 | (9) |
| (JJP) Ged 16 (Van Ged 2) Van Plaas Vlakvarkfontein 213 Proprietary Limited | 100 | (4) |
| Keaton Energy Holdings Limited | 100 | 39 206 |
| Keaton Mining Proprietary Limited | 100 | 6 548 |
| Keaton Administration and Technical Services Proprietary Limited | 100 | 7 726 |
| Leeuw Braakfontein Colliery Proprietary Limited | 100 | 2 428 |
| Lebohlano Trading 46 Proprietary Limited | 100 | (7 188) |
| Ausco Finance Proprietary Limited | 100 | (66) |
| Ausco Service Proprietary Limited | 100 | (58) |
| Neosho Trading 86 Proprietary Limited | 74 | 2 357 |

Details of the company's investment in subsidiaries are set out in note 8.

## INDEPENDENT AUDITORS

PricewaterhouseCoopers Inc. (Johannesburg) will continue in office as Wescoal's independent auditors for the ensuing year following their appointment in accordance with the Companies Act.

## DIRECTORS' INTEREST IN THE ISSUED SHARE CAPITAL

| | Direct beneficial '000 | Indirect beneficial '000 |
|---|---|---|
| **31 March 2018** | | |
| MR Ramaite | – | 134 385 |
| JG Pansegrouw | – | 2 040 |
| W Sulaiman | 1 226 | – |
| IJ van der Walt | 170 | – |
| T Tshithavhane | 89 | – |
| | 1 485 | 136 425 |
| **31 March 2017** | | |
| MR Ramaite | – | 134 385 |
| JG Pansegrouw | – | 2 040 |
| W Sulaiman | 1 110 | – |
| IJ van der Walt | 170 | – |
| T Tshithavhane | 20 | – |
| | 1 300 | 136 425 |

There were no changes to the interests of the directors between year-end and the date of the financial statements.

## DIRECTORS' REMUNERATION

Details of directors' remuneration are set out below:

### Executive directors

| | Remuneration R'000 | Medical and provident fund contributions R'000 | Annual bonus R'000 | Fringe and other benefits R'000 | Cash total R'000 | IFRS 2 share option expense R'000 |
|---|---|---|---|---|---|---|
| **31 March 2018** | | | | | | |
| W Sulaiman | 3 859 | 299 | 2 328 | 178 | 6 664 | 279 |
| IJ van der Walt* | 2 378 | 174 | 1 167 | 106 | 3 825 | 131 |
| T Tshithavhane | 3 138 | 235 | 1 746 | 119 | 5 238 | 257 |
| B Mazarura+ | 1 391 | 77 | 1 746 | 39 | 3 253 | (87)[1] |
| | 10 766 | 785 | 6 987 | 442 | 18 980 | 580 |
| **31 March 2017** | | | | | | |
| W Sulaiman | 3 683 | 120 | 1 100 | 215 | 5 118 | 241 |
| IJ van der Walt# | 2 368 | 65 | 320 | 102 | 2 855 | 10 |
| T Tshithavhane | 2 783 | 83 | – | 154 | 3 020 | 74 |
| B Mazarura^ | 2 096 | 53 | – | 101 | 2 250 | 87 |
| | 10 930 | 321 | 1 420 | 572 | 13 243 | 412 |

*[1] Reversal, upon resignation, of pro rata share option expense previously recognised for unvested options.*

** Izak van der Walt was reappointed as a director of the holding company and CFO on 1 September 2017.*

*+ Bothwell Mazarura resigned as director and CFO, effective 31 August 2017.*

*# Izak van der Walt resigned as director of the holding company with effect from 19 September 2016; he remained a director of subsidiary companies.*

*^ Bothwell Mazarura was appointed as CFO on 1 July 2016.*

### Non-executive directors

| Fees for services as a director | 31 March 2018 R'000 | 31 March 2017 R'000 |
|---|---|---|
| MR Ramaite | 539 | 468 |
| JG Pansegrouw | 445 | 485 |
| DMT van Gaalen | 841 | 867 |
| KM Maroga | 502 | 574 |
| HLM Mathe | 423 | 574 |
| C Maswanganyi | 43 | – |
| ET Mzimela | 56 | – |
| | 2 849 | 2 968 |

## Share options in the company held by directors

| | Financial year granted | Option grant (strike price) Cents | Balance held at 31 March 2018 '000 | Available for take-up at 31 March 2018 '000 | Balance held at 31 March 2017 '000 |
|---|---|---|---|---|---|
| W Sulaiman | 2015 | 185 | 1 000 | 600 | 1 000 |
| | 2016 | 111 | 250 | 100 | 250 |
| | 2018 | 213 | 225 | – | – |
| IJ van der Walt | 2016 | 111 | 75 | 30 | 75 |
| | 2018 | 213 | 954 | – | – |
| T Tshithavhane | 2017 | 246 | 850 | 170 | 850 |
| | 2018 | 213 | 205 | – | – |
| B Mazarura* | 2017 | 246 | – | – | 1 000 |

** Bothwell Mazarura resigned as director and CFO, effective 31 August 2017.*

# AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT

The report from the audit, risk and compliance committee ("ARC" or "the committee") is presented below in terms of the requirements of the Companies Act, the JSE Listings Requirements and the committee charter as approved by the board of directors. The ARC is appointed at each annual general meeting as required by the Companies Act, part D, section 94.

The ARC is responsible for the functions and duties as required in terms of section 74 and Regulation 43(5) of the Companies Act. In assisting the board to discharge its duties, the committee also advises on safeguarding of assets, appropriate systems, controls and processes for oversight and reporting. The committee also oversees matters relating to internal controls, accounting policies and practices, internal and external audit, integrated reporting, risk management, IT governance, corruption and fraud risks.

## CONSTITUTION OF THE COMMITTEE

The committee consists of three non-executive directors who are recommended by the board and confirmed by shareholders at the annual general meeting. Each member has the adequate relevant knowledge, expertise and experience for the committee to execute its duties and responsibilities. The CEO, the CFO, representatives of the external and internal auditors, other assurance providers, and other professional advisors attend meetings as invitees.

## RESPONSIBILITIES

In addition to the duties required of it by the Companies Act, the JSE Listings Requirements and King IV, the main responsibility of the committee is to assist the board in discharging its duties relating to the monitoring and review of:

- the effectiveness of the group's information systems and other systems of internal control;
- the effectiveness of the internal audit function;
- the reports of both the external and internal auditors;
- the integrated annual report and specifically the annual financial statements included therein;
- the accounting policies of the group and any proposed revisions thereto;
- the combined assurance plan, external audit findings, reports and fees and the approval thereof;
- the safeguarding of assets and the operation of adequate systems, accounting practices and control processes;
- promoting the overall effectiveness of good corporate governance in the group;
- the effectiveness of the enterprise risk management function;
- compliance with applicable legislation and requirements of regulatory authorities; and
- the principles for recommending the use of external auditors for non-audit services.

## COMMITTEE MEETINGS

During the year under review the committee met six times. Special meetings were held to focus on material issues that required specific deliberation.

## CONSTITUTION OF THE COMMITTEE

The committee has effectively discharged the following of its duties during the year under review:

### Financial statements and accounting practices

The committee reviewed the accounting policies and the annual financial statements of the company for the year ended 31 March 2018, and ensured that these were compliant with the provisions of the Companies Act, IFRS and the JSE Listings Requirements. This review culminated in a recommendation to the board for the adoption of the financial statements.

The committee reviewed the group's significant accounting matters and recommended the approval thereof to the board which includes:

- The acquisition of Keaton Energy (business combination accounting);
- Impairment review of the cash-generating units as well as individual items of property, plant and equipment;
- Provision for environmental rehabilitation and decommissioning; and
- Taxation matters.

### External auditors

The committee has considered and satisfied itself with the independence and objectivity of PricewaterhouseCoopers Inc. and Andries Rossouw in their respective capacities as the appointed external audit firm and lead audit partner. The committee also ensured that the scope of non-audit services rendered did not impair their independence.

The committee also satisfied itself that the external auditor and lead audit partner are both accredited on the JSE's list of auditors and advisers. The committee also approved the non-audit-related services performed by the external auditor during the year under review and determined the external auditor's terms of engagement and fees for 2018.

### Internal audit

The internal audit function is overseen by the ARC and the role of internal audit is to provide assurance to the board on the adequacy and functioning of the group's internal controls, risk management and governance processes.

The committee considered the effectiveness of the internal audit function and monitored the plans, internal audit reports, performance and objectivity of the internal audit process. The internal audit function is independent from external audit and wholly outsourced, strengthening the independence of the function. The appointed internal audit service provider for FY18 was Barish.

During May 2018 a thorough handover process transitioned the internal audit function and appointment from Barish to SizweNtsalubaGobodo ("SNG"). In support of objective independence, the internal auditors have unrestricted access to the

audit committee, the audit committee chairman and the chairman of the board.

## Internal controls

The committee reviewed the reports of both the internal and external auditors, in respect of audits conducted on the internal control environment. The committee also took note of any concerns arising from these audits and considered the appropriateness of the responses from management.

Based on the extent of the audit work carried out by both the internal and external auditors, nothing was brought to the committee's attention which would suggest a material breakdown of any internal control system. The committee was therefore satisfied that the internal financial control environment continued to function effectively.

## Risk management

The committee has satisfied itself that the level of unmitigated risks, both individually and in totality, are within the risk appetite of the company, and that there is sufficient assurance provided to manage risks and the control environment through both internal and external assurance providers.

## Legal and regulatory matters

Updates on the legal matters are provided to the committee at each meeting and the committee considers the implications of these matters on fair presentation.

## DURING THE YEAR UNDER REVIEW, THE COMMITTEE

- reviewed legal matters that could have a material impact on the company;
- considered reports provided by management, internal and external auditors regarding compliance with legal and regulatory requirements; and
- monitored complaints received through the ethics line and other sources, including reports on internal controls, fraud and violation of laws and regulations.

## IT GOVERNANCE

The committee is responsible for IT governance on behalf of the board and reviews the reports from management and external assurance providers to ensure that an adequate and effective IT system is maintained. The CFO oversees the function and IT manager responsible for reliable and secure information technology systems, networks and applications to ensure uninterrupted business processes maximise operational efficiency. The corporate strategy is supported and embedded in the framework and strategy of IT policies and procedures.

During the year Wescoal implemented a number of improvement initiatives to network security, firewalls and other measures of reliability improvements and protection against cyberattacks and crime in general. Wescoal also implemented an integrated enterprise resource planning system for the enlarged mining business during the year and the disaster recovery plan includes redundancy network facilities and hosted services.

## INTEGRATED REPORTING

The committee evaluated the integrated annual report for the year under review and assessed its consistency with operational and other information known to the committee. The report was prepared using appropriate reporting standards, which conform to the requirements of King III and the JSE Listings Requirements.

The committee therefore recommended the integrated report for 2018 for approval to the board.

## SOLVENCY AND LIQUIDITY REVIEW

The committee is satisfied that the board has adequately performed solvency and liquidity tests on the company in terms of section 46 of the Companies Act, as and when required during the year under review.

## GOING CONCERN STATUS

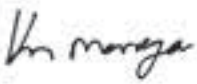
The committee considered the going concern status of the company on the basis of the review of the annual financial statements and other relevant information available to it and recommended such going concern status for adoption by the board.

## FINANCE DIRECTOR AND FINANCE FUNCTION

The committee reviewed the performance of the CFOs, BA Mazarura and subsequently IJ van der Walt, and was satisfied that they have the necessary expertise and experience to fulfil the role and that they had performed appropriately during the year under review.

The committee also considered, and has satisfied itself of the appropriateness of the expertise and experience of the finance function and adequacy of resources employed in this function.

The committee is satisfied that, in respect of the period under review, it has conducted its affairs and discharged its duties and responsibilities in accordance with its terms of reference, the JSE Listings Requirements, the Companies Act and the King Code on Corporate Governance.



Kabela Maroga
*Chairman of the ARC*

26 June 2018

# INDEPENDENT AUDITOR'S REPORT

To the shareholders of Wescoal Holdings Limited

## REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

### Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Wescoal Holdings Limited (the "company") and its subsidiaries (together the "group") as at 31 March 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act of South Africa.

#### What we have audited

Wescoal Holdings Limited's consolidated and separate financial statements set out on pages 102 to 167 which comprise:

- the group and company statements of financial position as at 31 March 2018;
- the group and company statements of profit or loss and other comprehensive income for the year then ended;
- the group and company statements of changes in equity for the year then ended;
- the group and company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

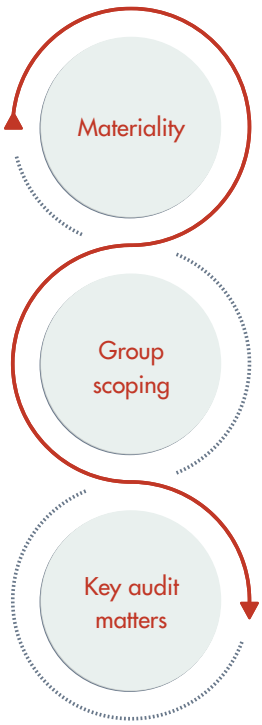
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the group in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors* ("IRBA Code") and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

### Our audit approach

#### Overview




**Overall group materiality**
Overall group materiality: R14.2 million, which represents 5% of consolidated profit before tax (adjusted for once-off items).

**Group audit scope**
Full scope audits were performed on the four financially significant components and specified procedures were performed on three other components as a result of significant account balances within these components.

**Key audit matters**
Business combination transaction and purchase price allocation in relation to the acquisition of Keaton Energy Holdings Limited.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

#### Overall group materiality

R14.2 million

#### How we determined it

5% of the group's consolidated profit before tax (adjusted for the gain on bargain purchase in respect of the Keaton acquisition as described in note 24 of the consolidated financial statements).

#### Rationale for the materiality benchmark applied

We chose consolidated profit before tax benchmark because, in our view it is the benchmark against which the performance of the group is most commonly measured by users. The consolidated profit before tax was adjusted to exclude items that are not reflective of the ongoing operations of the business. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

### How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

The group consists of 19 subsidiaries (referred to as "components"). We performed full scope audits on four components due to their financial significance, specified procedures on three components as a result of significant account balances within these components, and the remaining 12 components were considered to be insignificant to the group.

In establishing the overall approach to the group audit, we determined the extent of the work that needed to be performed by us, as the group engagement team, to issue our audit opinion on the consolidated financial statements of the group.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter listed below is applicable to the consolidated financial statements. We have determined that there are no key audit matters in respect of separate financial statements to communicate in our report.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Business combination transaction and fair value measurement in relation to the acquisition of Keaton Energy Holdings Limited**<br>Refer to note 24<br><br>On 3 February 2017 Wescoal Holdings Limited ("Wescoal") announced its firm intention offer to acquire all of the issued ordinary share capital of Keaton Energy Holdings Limited ("Keaton").<br><br>As described in note 24 to the consolidated financial statements, the consideration of R564 million payable by the company to Keaton shareholders was partly settled in cash at R1.20 per Keaton share, Wescoal ordinary shares in the ratio of 0.30 Wescoal shares for every 1 Keaton share held, a once-off cash payment of R30.2 million (in terms of the Keaton Employee Share Option Plan Waiver Payments) and a cash amount which was paid to certain dissenting shareholders.<br><br>Management determined that the acquisition date of the transaction was 20 June 2017 given that this was the date that the finalisation of the scheme was announced and all conditions precedent met.<br><br>The business combination accounting has been finalised.<br><br>In order to determine the fair values of the different mining rights, management performed a combination of fair valuation of life of mine ("LOM") ounces using the Multiple Period Excess Earnings approach (essentially a discounted cash flow model, but adjusted for contributory asset charges) and valuation of in-situ resources based on market multiples and comparable transactions. A deferred tax liability was recognised on the fair value adjustments at a rate of 28%.<br><br>The assessments performed by management required judgement in the determination of key assumptions and future market conditions, particularly in relation to:<br>• the discount rate,<br>• reserves and resources (in determination of LOM), and<br>• future cash flow forecasts taking into account the capital expenditure, working capital requirements, and operating costs.<br><br>Based on the results of the assessment performed by management a gain on bargain purchase of R6.6 million was recognised (refer to note 24 to the consolidated financial statements).<br><br>The fair value measurement for the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values required judgement and resulted in this being an area of most significance to our audit. | We obtained an understanding of how management determined the consideration and the fair value of the assets and liabilities assumed.<br><br>We verified the accuracy of the consideration determined by management by performing an independent calculation of the non-cash components and agreeing the cash components to payments made as per the relevant bank statements.<br><br>We assessed management's determination of the acquisition date of the transaction, 20 June 2017; the date management determined all conditions precedent to have been met.<br><br>We utilised our valuation expertise to test the accuracy of the LOM model and contributory asset charges used by management by performing an independent recalculation and comparing the results of our calculation with management's calculations.<br><br>The significant assumptions used by management in their purchase price allocation were subjected to the following audit procedures:<br>• Long-term real coal prices of ZAR375/tonne were tested with the assistance of our valuation expertise by benchmarking the prices against analysts' prices;<br>• In considering the accuracy of the value of in situ (outside LOM) resources, we used our valuations expertise to independently calculate the resource multiple by benchmarking the valuation against comparable transactions;<br>• Production volumes as per the LOM plan assumption were compared to reserves and resources signed off by the group's competent person and to existing production volumes and approved business plans;<br>• Costs per the LOM were compared to 2018 actual costs incurred. In addition mining contractor costs were compared to contractually agreed costs for the future; and<br>• Long-term real discount rates were tested for reasonability, with the assistance of our valuation expertise, by independently calculating the discount rates, taking into account independently obtained market and company-specific data. While our discount rate is, itself, subjective, the discount rate adopted by management fell within an acceptable range from our independent calculation.<br><br>In order to assess the accuracy of management's recognised deferred tax liability and gain on bargain purchase, we independently calculated the deferred tax liability and gain on bargain purchase based on the assumptions described above, and compared it to management's recognised deferred tax liability and gain on bargain purchase. |

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual financial statements, which includes the directors' report, audit, risk and compliance committee report, directors' responsibilities and approval and declaration by the company secretary as required by the Companies Act of South Africa which we obtained prior to the date of this auditor's report, and the other sections of the integrated annual report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

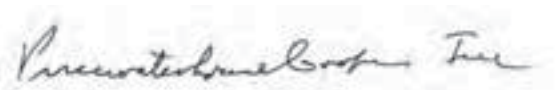
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

## Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Wescoal Holdings Limited for seven years.



PricewaterhouseCoopers Inc.
*Director: AJ Rossouw*
*Registered Auditor*

Johannesburg
26 June 2018

# GROUP STATEMENT OF FINANCIAL POSITION

as at 31 March 2018

| | Notes | 2018 R'000 | 2017 R'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | 2 180 001 | 818 273 |
| Investment property | 4 | 709 | 709 |
| Property, plant and equipment | 5 | 1 949 160 | 641 198 |
| Goodwill | 6 | 73 637 | 73 637 |
| Intangible assets | 7 | 17 876 | 22 352 |
| Prepaid royalty | 9 | 8 023 | 9 542 |
| Deferred tax | 11 | 25 519 | 9 533 |
| Other receivables | 12 | 55 843 | 36 654 |
| Investments | 13 | 34 899 | 17 909 |
| Investment in joint venture | 14 | 7 912 | – |
| Prepayment | 16 | – | 6 739 |
| Restricted cash | 17 | 6 423 | – |
| **Current assets** | | 820 198 | 773 584 |
| Prepaid royalty | 9 | 1 175 | 1 272 |
| Other receivables | 12 | 13 827 | – |
| Inventories | 15 | 99 824 | 56 861 |
| Trade and other receivables | 16 | 612 285 | 280 647 |
| Cash and cash equivalents | 17 | 93 087 | 84 411 |
| Restricted cash | 17 | – | 350 393 |
| **Total assets** | | 3 000 199 | 1 591 857 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| **Equity attributable to equity holders of parent** | | | |
| Share capital | 18 | 675 346 | 500 222 |
| Share-based payment reserve | | 10 320 | 8 676 |
| Minority interest | | 10 388 | – |
| Retained income | | 351 120 | 175 734 |
| **Total equity** | | 1 047 174 | 684 632 |
| **Liabilities** | | | |
| **Non-current liabilities** | | 1 063 400 | 277 918 |
| Instalment sale agreements | 19 | 3 135 | 552 |
| Other financial liabilities | 20 | 30 167 | 6 494 |
| Deferred tax | 11 | 340 985 | 62 113 |
| Provisions | 21 | 495 157 | 148 206 |
| Interest-bearing borrowings | 22 | 193 956 | 60 553 |
| **Current liabilities** | | 889 625 | 629 307 |
| Current tax payable | 37 | 39 478 | 13 486 |
| Instalment sale agreements | 19 | 5 393 | 2 355 |
| Other financial liabilities | 20 | 1 478 | 1 019 |
| Provisions | 21 | 6 088 | 9 365 |
| Trade and other payables | 23 | 524 514 | 331 863 |
| Interest-bearing borrowings | 22 | 256 451 | 254 121 |
| Bank overdraft | 17 | 56 223 | 17 098 |
| **Total liabilities** | | 1 953 025 | 907 225 |
| **Total equity and liabilities** | | 3 000 199 | 1 591 857 |

# COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 March 2018

| | Notes | 2018 R'000 | 2017 R'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | 785 817 | 204 232 |
| Property, plant and equipment | 5 | 1 040 | 1 310 |
| Intangible assets | 7 | 4 615 | – |
| Interests in subsidiaries | 8 | 700 029 | 130 956 |
| Loans to group companies | 10 | 33 547 | 31 672 |
| Deferred tax | 11 | 6 151 | 3 640 |
| Other receivables | 12 | 40 435 | 36 654 |
| **Current assets** | | 237 456 | 540 082 |
| Loans to group companies | 10 | 166 167 | 168 809 |
| Trade and other receivables | 16 | 24 285 | 18 210 |
| Cash and cash equivalents | 17 | 46 688 | 2 344 |
| Restricted cash | 17 | – | 350 393 |
| Current tax receivable | 37 | 316 | 326 |
| **Total assets** | | 1 023 273 | 744 314 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| **Equity attributable to equity holders of parent** | | | |
| Share capital | 18 | 675 346 | 500 222 |
| Share-based payment reserve | | 10 320 | 8 676 |
| Retained income | | 37 061 | 16 086 |
| **Total equity** | | 722 727 | 524 984 |
| **Liabilities** | | | |
| **Non-current liabilities** | | – | 50 763 |
| Interest-bearing borrowings | 22 | – | 50 763 |
| **Current liabilities** | | 300 546 | 168 567 |
| Loans from group companies | 10 | 247 280 | 99 608 |
| Trade and other payables | 23 | 53 265 | 27 166 |
| Interest-bearing borrowings | 22 | – | 24 746 |
| Bank overdraft | 17 | 1 | 17 047 |
| **Total liabilities** | | 300 546 | 219 330 |
| **Total equity and liabilities** | | 1 023 273 | 744 314 |

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 March 2018

| | Notes | GROUP 2018 R'000 | GROUP 2017 R'000 | COMPANY 2018 R'000 | COMPANY 2017 R'000 |
|---|---|---|---|---|---|
| Revenue | 28 | 3 527 057 | 2 118 020 | 114 503 | 75 153 |
| Cost of sales | 29 | (2 962 043) | (1 750 562) | – | – |
| **Gross profit** | | 565 014 | 367 458 | 114 503 | 75 153 |
| Other income | 30 | 24 208 | 3 845 | 695 | – |
| Operating expenses | | (251 459) | (166 279) | (71 195) | (50 446) |
| Gain on bargain purchase | 24 | 6 638 | – | 6 638 | – |
| BEE discount | | – | (82 280) | – | (82 280) |
| **Operating profit/(loss)** | 31 | 344 401 | 122 744 | 50 641 | (57 573) |
| Interest income | 32 | 18 613 | 6 775 | – | – |
| Finance costs | 33 | (79 393) | (29 625) | (6 162) | (5 925) |
| Share of net profit of joint venture accounted for using the equity method | 14 | 7 912 | – | – | – |
| **Profit/(loss) before taxation** | | 291 533 | 99 894 | 44 479 | (63 498) |
| Taxation (expense)/recovery | 34 | (89 519) | (69 694) | 2 511 | (1 223) |
| **Profit/(loss) for the year** | | 202 014 | 30 200 | 46 990 | (64 721) |
| Other comprehensive income | | – | – | – | – |
| **Total comprehensive income/(loss) for the year** | | 202 014 | 30 200 | 46 990 | (64 721) |
| **Total profit/(loss) for the year is attributable to:** | | | | | |
| Owners of the parent | | 201 401 | 30 200 | 46 990 | (64 721) |
| Non-controlling interest | | 613 | – | – | – |
| **Profit/(loss) for the year** | | 202 014 | 30 200 | 46 990 | (64 721) |
| **Total comprehensive income/(loss) attributable to:** | | | | | |
| Owners of the parent | | 201 401 | 30 200 | 46 990 | (64 721) |
| Non-controlling interest | | 613 | – | – | – |
| **Total comprehensive income/(loss) for the year** | | 202 014 | 30 200 | 46 990 | (64 721) |
| **Earnings per share** | | | | | |
| – Basic | 35 | 48.11 | 11.64 | | |
| – Diluted | 35 | 48.06 | 11.61 | | |

# STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 March 2018

| | Share capital (note 18) R'000 | Share-based payment reserve (note 25) R'000 | Retained income R'000 | Total attributable to equity holders of the group/ company R'000 | Non-controlling interest (notes 8 and 24) R'000 | Total equity R'000 |
|---|---|---|---|---|---|---|
| GROUP | | | | | | |
| Balance at 1 April 2016 | 213 156 | 7 263 | 164 642 | 385 061 | – | 385 061 |
| Profit for the year | – | – | 30 200 | 30 200 | – | 30 200 |
| Dividend* | – | – | (19 108) | (19 108) | | (19 108) |
| General issue of shares | 286 781 | – | – | 286 781 | – | 286 781 |
| Employee share option scheme | 285 | 1 413 | – | 1 698 | – | 1 698 |
| Balance at 31 March 2017 | 500 222 | 8 676 | 175 734 | 684 632 | – | 684 632 |
| Profit for the year | – | – | 201 401 | 201 401 | 613 | 202 014 |
| Dividend* | – | – | (26 015) | (26 015) | – | (26 015) |
| Shares issued for acquisition of Keaton Energy Holdings Limited (notes 18 and 24) | 176 516 | – | – | 176 516 | – | 176 516 |
| Non-controlling interest on acquisition of subsidiary (note 24) | – | – | – | – | 9 775 | 9 775 |
| Share buy-back (note 18) | (3 597) | | | (3 597) | | (3 597) |
| Employee share option scheme | 2 205 | 1 644 | – | 3 849 | – | 3 849 |
| Balance at 31 March 2018 | 675 346 | 10 320 | 351 120 | 1 036 786 | 10 388 | 1 047 174 |
| COMPANY | | | | | | |
| Balance at 1 April 2016 | 213 156 | 7 263 | 99 915 | 320 334 | – | 320 334 |
| Loss for the year | – | – | (64 721) | (64 721) | – | (64 721) |
| Dividend* | – | – | (19 108) | (19 108) | – | (19 108) |
| General issue of shares | 286 781 | – | – | 286 781 | – | 286 781 |
| Employee share option scheme | 285 | 1 413 | – | 1 698 | – | 1 698 |
| Balance at 31 March 2017 | 500 222 | 8 676 | 16 086 | 524 984 | – | 524 984 |
| Profit for the year | – | – | 46 990 | 46 990 | – | 46 990 |
| Dividend* | – | – | (26 015) | (26 015) | – | (26 015) |
| Shares issued for acquisition of Keaton Energy Holdings Limited (notes 18 and 24) | 176 516 | – | – | 176 516 | – | 176 516 |
| Share buy-back (note 18) | (3 597) | – | – | (3 597) | | (3 597) |
| Employee share option scheme | 2 205 | 1 644 | – | 3 849 | – | 3 849 |
| Balance at 31 March 2018 | 675 346 | 10 320 | 37 061 | 722 727 | – | 722 727 |

** The final and interim dividends declared for financial year ended 2017 (2.67 cents per ordinary share) and 2018 (3.11 cents per ordinary share) respectively; accounted for and paid in the 2018 financial year.*

# STATEMENTS OF CASH FLOWS

for the year ended 31 March 2018

| | Notes | GROUP 2018 R'000 | GROUP 2017 R'000 | COMPANY 2018 R'000 | COMPANY 2017 R'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated from/(utilised in) operations | 36 | 358 779 | 253 515 | 5 897 | (10 233) |
| Interest received | | 14 217 | 5 621 | 8 312 | 4 982 |
| Dividends received | | 615 | – | 50 615 | – |
| Finance costs | | (45 428) | (25 948) | (6 162) | (5 925) |
| Tax paid | 37 | (114 810) | (46 147) | 10 | (302) |
| **Net cash from operating activities** | | 213 373 | 187 041 | 58 672 | (11 478) |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | | (63 228) | (98 924) | (82) | (1 331) |
| Purchase of intangible asset | | (4 888) | | (4 886) | – |
| Proceeds on sale of property, plant and equipment | | 1 153 | 7 243 | – | 8 |
| Loan to joint venture | | (22 496) | – | – | – |
| Repayment of loans to group companies | | – | – | 165 | 70 561 |
| Cash consideration for Keaton acquisition, net of cash acquired | | (375 799) | – | (384 143) | – |
| Proceeds from loans from group companies | | – | – | 147 672 | 93 421 |
| Purchase of rehabilitation investment | 13 | (15 290) | (7 440) | – | – |
| Transfer to restricted cash | 17 | 350 393 | (350 393) | 350 393 | (350 393) |
| Divestment of rehabilitation investment | 13 | 11 636 | 11 759 | – | – |
| **Net cash from investing activities** | | (118 519) | (437 755) | 109 119 | (187 734) |
| **Cash flows from financing activities** | | | | | |
| Share buy-back | | (3 597) | – | (3 597) | – |
| Proceeds of general issue of shares | | – | 175 959 | – | 175 959 |
| Share issue expenses | | (3 485) | (2 506) | (3 485) | (2 506) |
| Proceeds on share options exercised | | 2 205 | 285 | 2 205 | 285 |
| Dividends paid | | (26 015) | (19 108) | (26 015) | (19 108) |
| Proceeds from long-term borrowings | 22 | 384 170 | 110 477 | – | 68 381 |
| Repayment of long-term borrowings | 22 | (472 115) | (29 622) | (75 509) | (22 754) |
| Repayment of instalment sale agreements | 19 | (4 469) | (2 856) | – | – |
| Repayment of other financial liabilities | | (1 997) | – | – | – |
| **Net cash from financing activities** | | (125 303) | 232 629 | (106 401) | 200 256 |
| **Total cash and cash equivalent movement for the year** | | (30 449) | (18 085) | 61 390 | 1 044 |
| Cash and cash equivalent at beginning of year | | 67 313 | 85 398 | (14 703) | (15 747) |
| **Total cash and cash equivalent at end of year** | 17 | 36 864 | 67 313 | 46 687 | (14 703) |

# ACCOUNTING POLICIES

for the year ended 31 March 2018

## 1. PRESENTATION OF CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

The annual financial statements have been prepared in accordance with the IFRS, the Companies Act, and JSE Listings Requirements. The principal accounting policies adopted and the methods of computation used in the preparation of these financial statements are set out below and are consistent in all material respects with those applied during the previous year, except for those changes which have occurred as a result of the adoption of new and amended IFRS, interpretations and circulars as disclosed in note 2.

The annual financial statements have been prepared on the historical cost basis and incorporate the principal accounting policies set out below. They are presented in South African rands and are prepared in accordance with the recognition and measurement criteria of IFRS and its interpretations adopted by the International Accounting Standards Board ("IASB") in issue and effective for the entity at 31 March 2018, and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council.

These accounting policies are consistent with the previous period.

## 1.1 Consolidation

### Basis of consolidation

The consolidated annual financial statements incorporate the consolidated annual financial statements of the group and all entities, including structured entities, which are controlled by the group.

Control exists when the group is exposed, 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 results of subsidiaries are included in the consolidated annual financial statements from the effective date of acquisition to the effective date of disposal.

Adjustments are made when necessary to the consolidated annual financial statements of subsidiaries to bring their accounting policies in line with those of the group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Transactions which result in changes in ownership levels, where the group has control of the subsidiary, both before and after the transaction, are regarded as equity transactions and are recognised directly in the statement of changes in equity.

The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognised in equity attributable to the owners of the parent.

Where a subsidiary is disposed of and a non-controlling shareholding is retained, the remaining investment is measured to fair value with the adjustment to fair value recognised in profit or loss as part of the gain or loss on disposal of the controlling interest.

### Business combinations

The group accounts for business combinations using the acquisition method of accounting. The cost of the business combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued. Costs directly attributable to the business combination are expensed as incurred, except the costs to issue debt which are amortised as part of the effective interest and costs to issue equity which are included in equity.

Contingent consideration is included in the cost of the combination at fair value as at the date of acquisition. Subsequent changes to the assets, liability or equity which arise as a result of the contingent consideration are not effected against goodwill, unless they are valid measurement period adjustments.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the recognition conditions of IFRS 3: *Business Combinations* are recognised at their fair values at acquisition date, except for non-current assets (or disposal group) that are classified as held-for-sale in accordance with IFRS 5: *Non-current Assets Held-for-sale and Discontinued Operations*, which are recognised at fair value less costs to sell.

On acquisition, the group assesses the classification of the acquiree's assets and liabilities and reclassifies them where the classification is inappropriate for group purposes. This excludes lease agreements and insurance contracts, whose classification remains as per their inception date.

Non-controlling interests arising from a business combination, which are present ownership interests, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, are measured either at the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets, or at fair value. The treatment is not an accounting policy choice, but is selected for each individual business combination and disclosed in the note for business combinations.

In cases where the group held a non-controlling shareholding in the acquiree prior to obtaining control, that interest is measured to fair value as at acquisition date. The measurement to fair value is included in profit or loss for the year. Where the existing shareholding was classified as an available-for-sale financial asset, the cumulative fair value adjustments recognised previously to other comprehensive income and accumulated in equity are recognised in profit or loss as a reclassification adjustment.

## 1.2 Significant judgements and sources of estimation uncertainty

In preparing the consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The following judgements have been made by the group in the process of applying the group's accounting policies that have the most significant effect on the amounts recognised in the annual financial statements:

### Property, plant and equipment

The determination of the useful economic life and residual values of property, plant and equipment is subject to management estimation. The company regularly reviews all of its depreciation rates and residual values to take account of any changes in circumstances, and any changes that could affect prospective depreciation charges and asset carrying values.

The estimation of reserves impacts the depreciation of property, plant and equipment and the recoverable amount of property, plant and equipment. Factors impacting the determination of proved and probable reserves are:

- the grade of mineral reserves may vary significantly from time to time (ie differences between actual grades mined and resource model grades);
- differences between actual commodity prices and commodity price assumptions;
- unforeseen operational issues at mine sites;
- changes in capital, operating, mining, processing and reclamation costs, discount rates and foreign exchange rates; and
- expectations regarding future profitability would impact the decision to continue mining and consequently the continued classification as proved and probable mineral reserves.

### Business combination

The determination of the fair values of identifiable assets and liabilities acquired as part of the business combination require management to apply significant judgement and make estimates. Refer to note 24 for a detailed summary of such judgements and estimates relating to the valuation of property, plant and equipment, mineral rights and deferred tax acquired during the year.

### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher value-in-use calculations and fair values less cost of disposal. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact the group's estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets (refer to notes 5, 6 and 7).

The group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Management assesses possible impairment indicators which include movements in commodity prices, exchange rates and the economic environment of the coal mining industry. Estimates are made in determining the recoverable amount of assets which includes the estimation of cash flows and discount rates used. In estimating cash flows, the group bases cash flow projections on reasonable and supportable assumptions that represent the group's best estimate of the range of economic conditions that will exist over the remaining useful life of the assets. The discount rates used are pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the assets for which the future cash flow estimates have not been adjusted.

### Mine rehabilitation provision

In applying IAS 37: *Provisions, Contingent Liabilities and Contingent Assets*, estimates of determining the present obligation of environmental and decommissioning provisions are required.

Environmental and decommissioning costs are provided for, where either a legal or constructive obligation is recognised as a result of the group's coal mining operations (refer to note 21).

Significant estimates and assumptions are made in determining the present obligation of environmental and decommissioning provisions, which include the actual estimate, the inflation rate, the discount rate used and the expected date of closure of mining activities. Estimates are based on costs that are annually determined by independent environmental specialists in accordance with environmental regulations, and adjusted as appropriate for new circumstances.

Numerous factors will affect the ultimate liability payable. These factors include estimates of the extent and cost of rehabilitation activities, technological changes and environmental legislation changes.

Unwinding of discount due to the passage of time is included as an element of finance costs in arriving at profit or loss for the year in terms of IAS 37: *Provisions, Contingent Liabilities and Contingent Assets* (refer to notes 21 and 40).

The present value of environmental disturbances created, as well as changes to estimates, are capitalised to mining assets

against an increase in the rehabilitation provision. Change in estimates for operations in the development and production phase is capitalised and amortised over the life of mine on the units of production method. Rehabilitation costs incurred, that are included in the estimates, are charged to the provision. The cost of ongoing current rehabilitation is charged against income as incurred.

## 1.3 Investment property

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

### Cost model

Investment property is carried at cost less depreciation less any accumulated impairment losses.

Depreciation is provided to write down to cost, less estimated residual value by equal instalments over the useful life of the property, which is as follows:

| Item | Useful life |
|---|---|
| Property – land | Indefinite |

Investment property consists of land and is not depreciated.

## 1.4 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the group; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently, which meet the recognition criteria, to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

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

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

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Land is not depreciated. Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

Assets under construction include costs incurred with regard to mine development and are transferred to relevant asset classes when ready for their intended use. Mine development assets are initially measured at cost, and are subsequently assessed for impairment on an annual basis.

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

| Item | Average useful life |
|---|---|
| Buildings | 50 years |
| Plant and machinery | 5 years |
| Furniture and fixtures | 5 — 10 years |
| Motor vehicles | 5 years |
| Office equipment | 10 years |
| IT equipment | 3 years |
| Mining properties | Estimated ROM tonnes |
| Mineral assets | Estimated ROM tonnes |

Mining properties and mineral assets are depreciated on a unit-of-production basis, in proportion to the ROM tonnes of coal extracted in the year compared with total proven and probable reserves at the beginning of the year, once in the form intended for use by management.

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

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

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

### Stripping activities

The removal of overburden and other mine waste materials is often necessary during the initial development of a mine site, in order to access the mineral ore deposit. The directly attributable cost of this activity is capitalised in full within mining assets under construction, until the point at which the mine is considered to be capable of commercial production.

All amounts capitalised in respect of waste removal are depreciated using the units-of-production method based on proved and probable ore reserves of the component of the orebody to which they relate.

The effects of changes to the LOM plan on the expected cost of waste removal or remaining reserves for a component are accounted for prospectively as a change in estimate.

## 1.5 Non-current assets held-for-sale

Non-current assets are classified as held-for-sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for sale in its immediate condition. Management must be committed to the sale, which should be expected within one year from the date of classification as held-for-sale.

## 1.6 Goodwill

Goodwill arises on the acquisition of a business and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss and other comprehensive income.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

## 1.7 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets – brands and trademarks, customer lists, underground access right and computer software – are carried at cost less any accumulated amortisation and any impairment losses. There are no intangible assets that have an indefinite useful life. For intangible assets – brands and trademarks, customer lists, underground access right and computer software – amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

The useful lives of items of intangible assets have been assessed as follows:

| Item | Useful life |
|---|---|
| Intangible assets – brands and trademarks | 5 years |
| Customer lists | 5 years |
| Underground access right | Life of mine |
| Computer software | 3 years |

## 1.8 Interests in subsidiaries

In the group's separate annual financial statements, interests in subsidiaries are carried at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group; plus
- any costs directly attributable to the purchase of the subsidiary.

## 1.9 Joint arrangements

Under IFRS 11: *Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

The group's joint ventures are accounted for using the equity method after initially being recognised at cost in the consolidated balance sheet.

## 1.10 Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not

recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with IAS 36.

## 1.11 Financial instruments

### Classification

The group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Classification depends on the purpose for which the financial instruments were obtained/incurred.

The group classifies financial assets into the following categories:

- At fair value through profit or loss (rehabilitation investment); and
- Loans and receivables (loans receivable, trade and other receivables, cash and cash equivalents).

The group classifies financial liabilities into the following category:

- Financial liabilities at amortised cost (borrowings and trade and other payables).

### Initial recognition and measurement

Financial instruments are recognised initially when the group becomes a party to the contractual provisions of the instruments and are measured initially at fair value.

Purchases and sales of financial assets are accounted for at trade date, the date on which the group commits to purchase or sell the asset.

### Subsequent measurement

Financial assets at fair value through profit or loss are subsequently measured at fair value, with movements recognised in profit or loss.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities are subsequently measured at amortised cost, using the effective interest method.

### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investment have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

### Impairment of financial assets

At each reporting date the group assesses financial assets measured at amortised cost to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For loans and receivables, the impairment is measured at the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The asset's carrying amount is reduced and the amount of the impairment loss is recognised in the statement of profit or loss and other comprehensive income.

The criteria that the group uses to determine that there is objective evidence of an impairment loss on trade and other receivables include significant difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments.

Impairment losses are recognised in profit or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

### Loans to/(from) group companies

Loans to group companies are classified as loans and receivables, initially recognised at fair value and subsequently measured at amortised cost. Loans from group companies that are repayable on demand are included in current liabilities. Loans to group companies with no fixed repayment terms are included in current and non-current assets based on expected repayments.

### Trade and other receivables

Trade and other receivables are classified as loans and receivables and are amounts due from customers for services performed in the ordinary course of business. If held primarily for the purpose of trading, they are classified as current assets.

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, and bank overdrafts.

### Restricted cash

Restricted cash is cash not available for immediate use. Such cash cannot be used by the company until a certain point or event in the future. If the restricted cash balance is material, then this balance is shown separately from cash and cash equivalents on the statement of financial position. Depending on when cash is expected to be used, restricted cash can be classified as a current (expected to be used within one year) or non-current asset (expected not to be used within one year).

### Rehabilitation investment

The rehabilitation investment with Old Mutual is designated as a financial asset at fair value through profit or loss as this investment is managed on a fair value basis. This investment is measured at fair value, with fair value movements accounted for in profit or loss.

### Trade and other payables

Trade and other payables are financial instruments classified as financial liabilities measured at amortised cost and are therefore subsequently measured at amortised cost.

## 1.12 Tax

### Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities/(assets) for the current and prior periods are measured at the amount expected to be paid to/(recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

### Deferred tax assets and liabilities

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

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

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

### Tax expenses

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

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

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

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

## 1.13 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

### Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the agreement or, if impracticable, the incremental borrowing rate.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance

charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability. The corresponding rental obligation, net of finance charges, is included in payables.

The property, plant and equipment acquired under a finance lease is depreciated over the shorter of the useful life of the asset and the lease term.

### Operating leases – lessor

Operating lease income is recognised as an income on a straight-line basis over the lease term. The difference between the amounts recognised as an income and the contractual receipts are recognised as an operating lease liability. The liability is not discounted.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in profit or loss.

### Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments is recognised as an operating lease asset which is not discounted.

Any contingent rents are expensed in the period they are incurred.

## 1.14 Inventories

Inventories, which include coal ROM and product stockpiles and consumables, are measured at the lower of cost and net realisable value on the first-in first-out basis.

The cost of inventories is determined by reference to all costs of purchase, direct mining expenditure and an appropriate portion of overhead expenditure, including directly related depreciation, transport and other costs incurred in bringing the inventories to their present location and condition. Borrowing cost is not capitalised to inventory.

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

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

No portion of inventory is non-current. ROM stockpiles are utilised by the processing plant in the ongoing production process. Inventory stockpiles consist of saleable coal processed by the plant.

## 1.15 Impairment of non-financial assets

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

Irrespective of whether there is any indication of impairment, the group also tests goodwill acquired in a business combination for impairment annually.

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

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

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

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units.

The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
- Then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

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

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

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation, other than goodwill, is recognised immediately in profit or loss.

## 1.16 Share capital and equity

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

If the group reacquires its own equity instruments, the consideration paid, including any directly attributable incremental costs (net of income taxes) on those instruments, is deducted from equity attributable to the group's equity holders until the shares are cancelled or reissued.

Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the group's equity holders.

## 1.17 Provisions and contingencies

Provisions are recognised when:

- the group has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

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

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

Provisions are not recognised for future operating losses.

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

Contingent assets and contingent liabilities are not recognised.

Provisions for environmental restoration, restructuring costs and legal claims are recognised when the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments.

Provisions are measured at the present value of the expected economic benefits to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in the provision due to the passage of time is recognised as an interest expense.

Changes in the provision due to changes in estimates is recognised against the rehabilitation assets, which is measured at cost.

Changes in estimates include:

- a change in the estimated outflow of resources embodying economic benefits required to settle the obligation;
- a change in the current market-based discount rate, which includes changes in the time value of money and the risks specific to the liability; and
- an increase that reflects the change in life of mine.

## 1.18 Revenue

Revenue is recognised to the extent that significant risk and rewards of ownership of the goods has transferred; there is no continuing managerial involvement; it is probable that the economic benefits will flow to the group; and the revenue and costs incurred, or to be incurred, in respect of the transaction can be measured reliably.

The following specific recognition criteria must be met before revenue is recognised:

### Sale of coal

The group enters into contracts for the sale of coal. Revenue arising from coal 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 readily estimated.

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 weightbridge).

### Administration fees

The company has entered into a service agreement with its subsidiaries, whereby its directors and employees provide management services to operating subsidiaries in the group.

These services are on-charged on a monthly basis based on actual time spent managing the operating subsidiaries and is recognised in the accounting period in which the services were rendered.

Interest is recognised, in profit or loss, using the effective interest method.

Dividends are recognised, in profit or loss, when the group's right to receive payment has been established.

## 1.19 Cost of sales

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

Royalty expenses are recognised on an accruals basis in accordance with the substance of the relevant agreements.

The prepaid royalty (refer to note 9) is amortised on a units-of-production basis, based on Elandspruit ROM tonnes. Operational royalties are based on a rate per saleable tonne.

## 1.20 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use.

The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings; and
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset.

The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when:

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

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

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

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

Capitalised borrowing costs are presented under property, plant and equipment additions on the cash flow statement.

## 1.21 Share-based payments

The group operates an equity-settled, share-based compensation plan under which the entity receives services from employees as consideration for equity instruments (options) of the group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of profit or loss and other comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the group issues new shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital.

The grant by the group of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

## 1.22 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the group executive committee that makes strategic decisions.

## 2. NEW STANDARDS AND INTERPRETATIONS

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

For the 2018 annual financial year beginning on or after 31 March 2017, the group did not adopt any new standards for the first time.

The following amendments to standards as a result of the annual improvement process became effective for the first time for the 2018 annual financial year beginning on or after 31 March 2017. These amendments have been adopted by the group and did not have a significant effect on the group's financial statements:

#### Disclosure initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from both cash flow and non-cash charges. This includes providing a reconciliation between the opening and closing balances for liabilities arising from financing activities. In order to comply with the new disclosure requirements, the group and company now present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities (refer to notes 19 and 22).

#### Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12)

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

Adoption of the amendment to IAS 12 had no significant impact on the results of the group.

There are no other effective standards or interpretations applicable to the group

### 2.2 New standards, amendments and interpretations not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 April 2018, and have not been applied in preparing these consolidated financial statements. Management considered these new standards and amendments and the effect they will have on the consolidated financial statements of the group. The new standards and amendments will be adopted in the financial years they become effective.

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

The FASB and IASB issued their long-awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or service transfers to a customer.

The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of these areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

The 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 based on the group's and company's operations and processes in place. Under IFRS 15, revenue will be recognised when a customer obtains control of the goods, which is consistent with when revenue is currently recognised by the group. The group does not have any other performance obligations associated with the recognition of revenue.

Extensive new disclosure will be required by the standard. These requirements include comprehensive disclosure requirements that will provide users with information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the group's contracts with customers. The group and company expect to disclose additional qualitative information upon adoption of IFRS 15.

#### 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*.

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.

**Classification – Financial assets**

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through

profit or loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A preliminary assessment of the business model indicates that the group and company's other receivables (refer to note 12), currently classified as loans and receivables are likely to be classified as measured at amortised cost. The remaining classification categories are still measured.

Impairment – Financial assets

IFRS 9 replaces the "incurred loss" model IAS 39 with a forward looking "expected credit loss" ("ECL model"). This will require considerable judgement as to how changes in economic factors affected ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of financial instruments.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition, and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables without a significant financing component; an entity may choose to apply this policy also for trade receivables with a significant financing component.

The group has determined that the application of an expected credit loss model is likely to result in an earlier recognition of credit losses, in particular on other receivables. A preliminary impact assessment which is being finalised by management indicated that the application of the expected credit loss model is unlikely to result in material adjustments.

The group has determined that restrospective restatement would require the application of hindsight. The group has therefore decided not to restate comparatives.

Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of changes in the fair value is presented in profit or loss.

The group and company have not designated any financial liabilities at FVTPL and have no current intention to do so.

The group and company's preliminary assessment did not indicate any material impact if IFRS 9's requirements regarding the classification of financial liabilities were applied at 31 March 2018.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected losses.

## Clarifying share-based payment accounting (Amendments to IFRS 2) (effective 1 April 2018)

Currently, there is ambiguity over how a company should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2: *Share-based Payments*.

The amendments cover three accounting areas:

- Measurement of cash-settled share-based payments – The new requirements do not change the cumulative amount of expense that is ultimately recognised, because the total consideration for a cash-settled share-based payment is still equal to the cash paid on settlement;
- Classification of share-based payments settled net of tax withholdings – The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if certain criteria are met; and
- Accounting for a modification of a share-based payment from cash-settled to equity-settled – The amendments clarify the approach that companies are to apply.

The new requirements could affect the classification and/or measurements of these arrangements — and potentially the timing and amount of expense recognised for new and outstanding awards. The group and company are assessing the potential impact on the financial statements resulting from these amendments, however, do not expect a significant impact on the financial statements.

## IFRS 16: *Leases* (effective 1 April 2019)

Under IAS 17, lessees were required to make a distinction between a finance lease (on-balance sheet) and an operating lease (off-balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 supersedes IAS 17: *Leases*, IFRIC 4: *Determining Whether an Arrangement Contains a Lease*, SIC 15: *Operating Leases – Incentives* and SIC 27: *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The group and company have started an initial assessment of the potential impact on its financial statements so far, the most significant impact identified is that the group will recognise new assets and liabilities for its operating leases. No significant impact is expected on the group's finance leases.

### Transfers to investment property (Amendments to IAS 40: *Investment Property*) (effective 1 April 2018)

These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use, there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

### Sale or contribution of assets (Amendments to IFRS 10: *Consolidated Financial Statements*, and IAS 28: *Investments in Associates and Joint Ventures*)

The postponement applies to changes introduced by the IASB in 2014 through narrow-scope amendments to IFRS 10: *Consolidated Financial Statements* and IAS 28: *Investments in Associates and Joint Ventures*. Those changes affect how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests. The changes do not affect other aspects of how entities account for their investments in associates and joint ventures.

The reason for making the decision to postpone the effective date is that the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

### Prepayment features with negative compensation and modification of financial liabilities (Amendments to IFRS 9: *Financial Instruments*) (effective 1 April 2019)

The narrow-scope amendment covers two issues:

- The amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met, instead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities; and
- How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.

### Long-term interests in associates and joint ventures (Amendments to IAS 28: *Investments in Associates and Joint Ventures*) (effective 1 April 2019)

The amendments clarified that companies account for long-term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9.

### IFRIC 23: *Uncertainty Over Income Tax Treatments* (effective 1 April 2019)

IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The interpretation provides specific guidance in several areas where previously IAS 12 was silent. The interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the interpretation and consider the impact on income tax accounting.

### Annual improvements 2014 to 2016 (effective 1 April 2018)

IAS 28: *Investments in Associates and Joint Ventures* regarding measuring an associate or joint venture at fair value. Adoption of this amendment will have no significant effect on the company's financial statements.

### Annual improvements 2015 to 2017 (effective 1 April 2019)

These amendments include minor changes to:

- IFRS 3: *Business Combinations* – a company remeasures its previously held interest in a joint operation when it obtains control of the business;
- IFRS 11: *Joint Arrangements* – a company does not remeasure its previously held interest in a joint operation when it obtains control of the business;
- IFRS 12: *Income Taxes* – the amendment clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised; and
- IFRS 23: *Borrowing Costs* – a company treats as part of general borrowings any borrowings originally made to develop an asset when the asset is ready for its intended use or sale.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

# 3. RISK MANAGEMENT

## Capital risk management

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

The approach and capital policies remained consistent with the previous year. Optimising the capital structure remains a key priority, and the group may issue new shares, raise long-term debt or sell assets to optimise appropriate capital structure and return on equity.

The group monitors capital on the basis of the gearing ratio, calculated as net debt divided by total capital. Net debt is calculated as total interest-bearing borrowings (including "current and non-current borrowing" as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the statement of financial position plus net debt.

The group's long-term target gearing ratio is to remain below 50%. Debt covenants include measurement of net debt against EBITDA and debt service ratios, among others. The facilities (refer to "Liquidity risk") with Nedbank CIB and Investec Bank Limited represents a limited concentration risk. Concentration risk is managed by actively monitoring compliance with debt covenants. The group's gearing ratio remained stable during the year, as a result of improved financial performance and of securing additional financing through its primary bankers, Nedbank CIB.

## Share capital

During June 2017, the group issued 87.4 million shares as part of the purchase consideration for the acquisition of Keaton Energy (refer note to 24).

The gearing ratio at 2018 and 2017 respectively was as follows:

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | Notes | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| **Total borrowings** | | | | | |
| Loans from group companies | 10 | – | – | (247 280) | (99 608) |
| Instalment sale agreements | 19 | (8 528) | (2 907) | – | – |
| Other financial liabilities | 20 | (31 645) | (7 513) | – | – |
| Interest-bearing borrowings | 22 | (450 407) | (314 674) | – | (75 509) |
| | | (490 580) | (325 094) | (247 280) | (175 117) |
| *Less:* Cash and cash equivalents | 17 | 36 864 | 67 313 | 46 687 | (14 703) |
| **Net debt** | | (453 716) | (257 781) | (200 593) | (189 820) |
| Total equity | | (1 047 174) | (684 632) | (722 727) | (524 984) |
| **Total capital** | | (1 500 890) | (942 413) | (923 320) | (714 804) |
| Gearing ratio (%) | | 30 | 27 | 22 | 27 |
| Restricted cash (excluded above) | 17 | 6 423 | 350 393 | – | 350 393 |

## 3. RISK MANAGEMENT continued

### Financial risk management

The group's activities expose it to a variety of financial risks: market risk, cash flow interest rate risk, credit risk and liquidity risk.

The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

Risk management is carried out by the head office function under policies approved by the board. The head office function identifies, evaluates and manages financial risks in close co-operation with the group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and investment of excess liquidity.

The group is exposed to limited foreign currency exchange risk on the US dollar-denominated Gunvor and Vitol loans (refer to note 22).

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The following tables analyse the group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

| | Less than one year R'000 | Between one and two years R'000 | Between two and five years R'000 | Total R'000 |
|---|---|---|---|---|
| GROUP | | | | |
| As at 31 March 2018 | | | | |
| Trade and other payables | 472 116 | – | – | 472 116 |
| Instalment sale agreements | 6 035 | 3 237 | – | 9 272 |
| Other financial liabilities | 2 626 | 6 130 | – | 8 756 |
| Interest-bearing borrowings | 262 566 | 76 446 | 121 717 | 460 729 |
| Bank overdraft | 56 223 | – | – | 56 223 |
| | 799 566 | 85 813 | 121 717 | 1 007 096 |
| As at 31 March 2017 | | | | |
| Trade and other payables | 280 497 | – | – | 280 497 |
| Instalment sale agreements | 2 543 | 567 | – | 3 110 |
| Other financial liabilities | 2 534 | 9 091 | – | 11 625 |
| Interest-bearing borrowings | 265 589 | 49 590 | 23 682 | 338 861 |
| Bank overdraft | 17 098 | – | – | 17 098 |
| | 568 261 | 59 248 | 23 682 | 651 191 |

## 3. RISK MANAGEMENT continued

### Liquidity risk continued

| | Less than one year R'000 | Between one and two years R'000 | Between two and five years R'000 | Total R'000 |
|---|---|---|---|---|
| COMPANY | | | | |
| As at 31 March 2018 | | | | |
| Trade and other payables | 39 052 | – | – | 39 052 |
| Loans from group companies | 247 280 | – | – | 247 280 |
| Bank overdraft | 1 | – | – | 1 |
| | 286 333 | – | – | 286 333 |
| As at 31 March 2017 | | | | |
| Trade and other payables | 15 000 | – | – | 15 000 |
| Loans from group companies | 99 608 | – | – | 99 608 |
| Interest-bearing borrowings | 31 568 | 31 568 | 23 682 | 86 818 |
| Bank overdraft | 17 047 | – | – | 17 047 |
| | 163 223 | 31 568 | 23 682 | 218 473 |

The group manages liquidity risk through an ongoing review of credit facilities to ensure funds available to cover future commitments.

Cash flow forecasts are prepared in the operating entities of the group and aggregated by group treasury, monitoring rolling forecasts of the group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

Where debt covenants were under pressure during the year, the financing institutions confirmed acceptance and continued support on financing.

The group funded significant investment to development cost of Elandspruit Mine from operating cash flows and ongoing utilisation of working capital facilities with Nedbank CIB and Reichmans (refer to note 22). As at 31 March 2018, the amounts due in less than one year exceed the current assets, excluding restricted cash, by R69 million.

The liquidity position is addressed as follows:

- Through undrawn overdraft facilities of R61 million (refer to note 17);
- Having secured a R120 million invoice discounting facility with Nedbank CIB over Wescoal Mining's debtor book. A remaining undrawn balance of R51 million remains available at 31 March 2018;
- Having secured a R100 million confidential invoice discounting facility over Keaton Mining's debtor book. A remaining undrawn balance of R12 million remains available at 31 March 2018; and
- Through recent operational performance and cash flow forecast demonstrating strong cash generation and consistent improvement of liquidity. Elandspruit mine being fully operational and producing at full capacity, the operational cash flow generation exceeds operational requirements.

Due to the nature of the group's invoice discounting facilities, being revolving, the facilities were appropriately classified as current liabilities. The group has, however, received commitment from its financiers for the extension of these facilities.

Concentration risk is limited due to the fact that the group generates its mining revenue mainly from sales to parastatal institutions while the Trading segment generates revenue from sales to a major customer in the private sector and a variety of customers that include government institutions, mining entities and various small and medium enterprises. The group supplies coal to Eskom on a long-term coal supply agreement.

## 3. RISK MANAGEMENT continued

### Cash flow interest rate risk

As the group has no significant net interest-bearing assets, its income and operating cash flows are substantially independent of changes in market interest rates.

The group's and company's interest rate risk arises mainly from variable-rate instalment sale agreements and borrowings. These borrowings carry variable rates that are linked to the prime lending rate in South Africa. No interest rate hedges or swaps are entered into.

The company has no significant cash flow interest rate risk arising from its interest-bearing loans to and from group companies as these loans are interest free, instead the company is exposed to fair value interest rate risk. The company's income and operating cash flows are substantially independent of changes in market interest rates.

### 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 below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2017.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Increase by 100 basis points | (5 467) | (3 309) | (476) | 83 |
| Decrease by 100 basis points | 5 467 | 3 309 | 476 | (83) |

### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, trade debtors and other receivables. The group only deposits cash with major banks with high-quality credit standing and limits exposure to any one counterparty.

Trade receivables consist mainly of Eskom, Sasol Mining, government institutions, and private-sector and mining entities. Eskom and Sasol have a history of no defaults and credit rating of Ba2 and Baa3 respectively.

The group only trades with recognised creditworthy third parties. It is the group's policy that all customers who wish to trade on credit terms be subject to credit verification procedures, which include an assessment of credit rating, short-term liquidity and financial position.

## 4. INVESTMENT PROPERTY

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Cost R'000 | Accumulated depreciation R'000 | Carrying value R'000 | Cost R'000 | Accumulated depreciation R'000 | Carrying value R'000 |
| GROUP | | | | | | |
| Investment property | 709 | – | 709 | 709 | – | 709 |

Investment property was valued by an independent property evaluator during 2014. The fair value was assessed at a level 3 on the fair value hierarchy and was based on then recent comparable transactions in the area. The fair value of the property was valued at R1 million.

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011, is available for inspection at the registered office of the company.

Investment property is encumbered as stated in note 22.

## 5. PROPERTY, PLANT AND EQUIPMENT

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Cost R'000 | Accumulated depreciation R'000 | Carrying value R'000 | Cost R'000 | Accumulated depreciation R'000 | Carrying value R'000 |
| GROUP | | | | | | |
| Land and buildings | 84 338 | (3 776) | 80 562 | 69 989 | (143) | 69 846 |
| Plant and machinery | 369 187 | (147 394) | 221 793 | 123 023 | (37 301) | 85 722 |
| Furniture and fixtures | 4 504 | (3 018) | 1 486 | 3 036 | (1 424) | 1 612 |
| Motor vehicles | 20 590 | (14 187) | 6 403 | 17 067 | (10 540) | 6 527 |
| IT equipment | 13 999 | (12 997) | 1 002 | 13 093 | (9 054) | 4 039 |
| Mining properties | 3 390 909 | (1 765 290) | 1 625 619 | 664 777 | (191 325) | 473 452 |
| Assets under construction | 12 295 | – | 12 295 | – | – | – |
| Total | 3 895 822 | (1 946 662) | 1 949 160 | 890 985 | (249 787) | 641 198 |

Reconciliation of property, plant and equipment

| | Opening balance R'000 | Business combination R'000 | Additions R'000 | Scrapping R'000 | Disposals R'000 | Depreciation R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| GROUP | | | | | | | |
| 31 March 2018 | | | | | | | |
| Land and buildings | 69 846 | 10 992 | – | (18) | – | (258) | 80 562 |
| Plant and machinery | 85 722 | 161 244 | 2 489 | – | (75) | (27 587) | 221 793 |
| Furniture and fixtures | 1 612 | 606 | 86 | (20) | (15) | (783) | 1 486 |
| Motor vehicles | 6 527 | 2 147 | 1 955 | (297) | (170) | (3 759) | 6 403 |
| IT equipment | 4 039 | 394 | 523 | (24) | (7) | (3 923) | 1 002 |
| Mining properties | 473 452 | 1 169 185 | 129 775 | – | – | (146 793) | 1 625 619 |
| Assets under construction | – | – | 12 295 | – | – | – | 12 295 |
| Total | 641 198 | 1 344 568 | 147 123 | (359) | (267) | (183 103) | 1 949 160 |

The group acquired property, plant and equipment with a net book value of R1.34 billion through the acquisition of Keaton Energy (refer to note 24).

Mining property additions for the year include further construction of the D20 road (R17.8 million) (2017: R20.5 million), capitalised deferred stripping cost for the Khanyisa and Vanggatfontein mine of R24.8 million and the change in rehabilitation estimate of R72.20 million (2017: R107.36 million) that was capitalised to the rehabilitation asset.

Additions to mineral properties further include the acquisition of a surface right of R9.3 million for Keaton Mining's Vanggatfontein Colliery, financed through a finance lease agreement (refer to note 19).

The group's mining operations have evolved significantly over the past three years, with significant amounts being capitalised to mining properties. Mining plans have continuously been revised and updated. In order to confirm that sufficient headroom still existed, management performed impairment assessments for the operations within the group's Mining segment, based on future estimated cash flows discounted to net present value at a real post-tax discount rate of 11.35% over the projected life of the mine (which is determined from the mine plans, supported by declared resource and reserve estimates). Sufficient headroom was noted and hence no impairment charge was required.

## 5. PROPERTY, PLANT AND EQUIPMENT continued

### Sensitivity

- Khanyisa: 11.46% increase in cost will still result in no impairment
- Intibane: 17.75% increase in cost will still result in no impairment
- Moabsvelden (based on transaction assumptions): R1.5 p/t decrease in sales price; 4.5% increase in project capex; and 0.5% increase in projected costs will still result in no impairment
- Vanggatfontein: R5.15 p/t decrease in sales price past current committed contract period; and 1.5% increase in mining costs

Reconciliation of property, plant and equipment

| | Opening balance R'000 | Additions R'000 | Disposals R'000 | Depreciation R'000 | Total R'000 |
|---|---|---|---|---|---|
| GROUP | | | | | |
| 31 March 2017 | | | | | |
| Land and buildings | 71 403 | – | (1 540) | (17) | 69 846 |
| Plant and machinery | 88 143 | 12 469 | – | (14 890) | 85 722 |
| Furniture and fixtures | 726 | 1 215 | (38) | (291) | 1 612 |
| Motor vehicles | 8 931 | 752 | (326) | (2 830) | 6 527 |
| IT equipment | 5 977 | 455 | (5) | (2 388) | 4 039 |
| Mining properties | 321 170 | 205 749 | – | (53 467) | 473 452 |
| Total | 495 350 | 220 640 | (1 909) | (73 883) | 641 198 |

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Cost R'000 | Accumulated depreciation R'000 | Carrying value R'000 | Cost R'000 | Accumulated depreciation R'000 | Carrying value R'000 |
| COMPANY | | | | | | |
| Furniture and fixtures | 1 227 | (335) | 892 | 1 134 | (77) | 1 057 |
| IT equipment | 317 | (169) | 148 | 329 | (76) | 253 |
| Total | 1 544 | (504) | 1 040 | 1 463 | (153) | 1 310 |

| | Opening balance R'000 | Additions R'000 | Transfer R'000 | Depreciation R'000 | Total R'000 |
|---|---|---|---|---|---|
| COMPANY | | | | | |
| 31 March 2018 | | | | | |
| Furniture and fixtures | 1 057 | 82 | 12 | (258) | 893 |
| IT equipment | 253 | | (12) | (94) | 147 |
| Total | 1 310 | 82 | – | (352) | 1 040 |
| 31 March 2017 | | | | | |
| Mineral assets | 62 | 1 080 | (7) | (78) | 1 057 |
| IT equipment | 46 | 251 | – | (44) | 253 |
| Total | 108 | 1 331 | (7) | (122) | 1 310 |

## 5. PROPERTY, PLANT AND EQUIPMENT continued

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| **Pledged as security** | | | | |
| Carrying value of assets pledged as security: | | | | |
| Portion 24 of Farm Rietfontein 286* | – | 5 107 | – | – |
| Plant, machinery, mineral assets and mining properties | 1 878 747 | 93 260 | – | – |
| Motor vehicles, property, plant and equipment | 2 337 | 4 641 | – | – |
| Land and buildings* | – | 11 637 | – | – |
| | 1 881 084 | 114 645 | – | – |

** These securities were released upon settlement of the Investec Bank Limited property finance loans during the year.*

Plant and machinery, motor vehicles and IT equipment are encumbered as stated in notes 19 and 22.

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011, is available for inspection at the registered office of the company.

## 6. GOODWILL

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Cost R'000 | Accumulated impairment R'000 | Carrying value R'000 | Cost R'000 | Accumulated impairment R'000 | Carrying value R'000 |
| GROUP | | | | | | |
| Goodwill | 73 637 | – | 73 637 | 73 637 | – | 73 637 |

**Reconciliation of goodwill**

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Opening balance R'000 | Additions through business combination R'000 | Total R'000 | Opening balance R'000 | Additions through business combination R'000 | Total R'000 |
| GROUP | | | | | | |
| Goodwill | 73 637 | – | 73 637 | 73 637 | – | 73 637 |

## 6. GOODWILL continued

### Impairment of goodwill and intangible assets

Goodwill and certain intangible assets (brands and trademarks and customer lists) (refer to note 7) are allocated to the group's Trading segment. The group's enlarged coal trading business operates as one fully integrated segment.

The group performed its annual impairment test of its goodwill and intangible assets on 31 March 2018. No impairment charge was recognised in the current or prior year.

The recoverable amount of the relevant cash-generating unit is determined using cash flow projections from financial budgets approved by the directors, covering a two-year period (2017: two-year period), and applying an expected inflation and growth rate thereafter. This methodology is consistent with the prior year. The post-tax discount rate applied to cash flow projections is 11.35% (2017: 10%).

The calculation of value in use is most sensitive to the following assumptions:

- Gross margin;
- Discount rates; and
- Growth rate used to extrapolate cash flows beyond the budget period.

Gross margins – Gross margins are from the financial budget approved by the board of directors during March 2018, which correlates with recent historic rates. Gross margins are expected to remain in a range of between 9% and 10% (2017: 10% and 11%).

Discount rates – Discount rates represent the current market assessment of the risks specific to the industry, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the company and its operating segments. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Growth rate estimates – Rates are based on management's estimates and expectations of future operations. No growth was assumed after the initial budgeted two-year period. In 2017, an assumed growth rate of 0.7% was used for the next five years, with no growth thereafter.

A sensitivity analysis was performed by changing the above input assumptions as follows:

- Gross margin down by 1%;
- Discount rates up by 1%; and
- Growth rate down by 1%.

None of the above sensitivity changes resulted in an impairment of goodwill or intangible assets.

The recoverable amount calculated exceeded carrying value by R132 million (2017: R63 million). An annual sales growth rate of 6.5% (2017: 0.2%) below inflation, a gross margin of 7.8% (2017: 9.08%) or a real discount rate of 38% (2017: 33%) would, all changes taken in isolation, result in the recoverable amount being equal to the carrying amount.

## 7. INTANGIBLE ASSETS

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Cost R'000 | Accumulated amortisation R'000 | Carrying value R'000 | Cost R'000 | Accumulated amortisation R'000 | Carrying value R'000 |
| GROUP | | | | | | |
| Brands and trademarks | 9 975 | (7 839) | 2 136 | 9 975 | (5 844) | 4 131 |
| Customer lists | 30 068 | (25 190) | 4 878 | 30 068 | (19 360) | 10 708 |
| Underground access right | 7 513 | (1 274) | 6 239 | 7 513 | – | 7 513 |
| Computer software | 6 236 | (1 613) | 4 623 | – | – | – |
| | 53 792 | (35 916) | 17 876 | 47 556 | (25 204) | 22 352 |

Reconciliation of intangible assets

| | Opening balance R'000 | Business combination R'000 | Additions R'000 | Amortisation R'000 | Total R'000 |
|---|---|---|---|---|---|
| GROUP | | | | | |
| 31 March 2018 | | | | | |
| Brands and trademarks | 4 131 | – | – | (1 995) | 2 136 |
| Customer lists | 10 708 | – | – | (5 830) | 4 878 |
| Underground access right | 7 513 | – | – | (1 274) | 6 239 |
| Computer software | – | 1 682 | 4 888 | (1 947) | 4 623 |
| | 22 352 | 1 682 | 4 888 | (11 046) | 17 876 |

The group acquired computer software as part of the business combination during the year and elected to convert its accounting software package to integrate it with the customised programme from Keaton Energy. The system conversion to SAP required additions of R5 million.

| | Opening balance R'000 | Additions R'000 | Amortisation R'000 | Total R'000 |
|---|---|---|---|---|
| GROUP | | | | |
| 31 March 2017 | | | | |
| Brands and trademarks | 6 126 | – | (1 995) | 4 131 |
| Customer lists | 16 538 | – | (5 830) | 10 708 |
| Underground access right | – | 7 513 | – | 7 513 |
| | 22 664 | 7 513 | (7 825) | 22 352 |

During the prior year, the group entered into an agreement with Nungu Trading 341 Proprietary Limited obtaining the use of their access point for underground mining and stockpile area to access the underground section of the Elandspruit mine and dispose of the coal from the area. The group may use the stockpile yard for the temporary storage of the coal mined, prior to it being transported to the processing plant.

The use of the access point and stockpile area is granted on a non-exclusive basis and will be used by both Nungu and the group for an estimated period of four years. The right of use has been recognised as an intangible asset and the payment terms of the agreement are set out in note 20, Other financial liabilities.

## 7. INTANGIBLE ASSETS continued

| | Cost R'000 | Accumulated amortisation R'000 | Carrying value R'000 |
|---|---|---|---|
| COMPANY | | | |
| 31 March 2018 | | | |
| Computer software | 4 886 | (271) | 4 615 |

Reconciliation of intangible assets

| | Opening balance R'000 | Additions R'000 | Amortisation R'000 | Total R'000 |
|---|---|---|---|---|
| COMPANY | | | | |
| 31 March 2018 | | | | |
| Computer software | – | 4 886 | (271) | 4 615 |

## 8. INTERESTS IN SUBSIDIARIES

The company had the following subsidiaries as at 31 March 2018, which form part of the Wescoal Holdings Limited Group:

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| Name of subsidiary | Held by | % holding | Carrying amount R'000 | % holding | Carrying amount R'000 |
| Wescoal Trading Proprietary Limited | Wescoal Holdings Limited | 100 | 73 237 | 100 | 68 758 |
| Wescoal Mining Proprietary Limited | Wescoal Holdings Limited | 100 | 62 589 | 100 | 62 198 |
| Wescoal Mineral Recoveries Proprietary Limited | Wescoal Holdings Limited | 100 | – | 100 | – |
| Wescoal Exploration Proprietary Limited | Wescoal Mining Proprietary Limited | 100 | | 100 | |
| Blanford 006 Proprietary Limited | Wescoal Trading Proprietary Limited | 100 | | 100 | |
| Proudafrique Trading 147 Proprietary Limited | Wescoal Mining Proprietary Limited | 100 | | 100 | |
| (JJP) Gedeelte 16 (van Gedeelte 2) Vlakvarkfontein Proprietary Limited | Blanford 006 Proprietary Limited | 100 | | 100 | |
| (JJP) Gedeelte 6 (van Gedeelte 2) Vlakvarkfontein Proprietary Limited | Blanford 006 Proprietary Limited | 100 | | 100 | |
| (JJP) Res van Gedeelte 2 Vlakvarkfontein Proprietary Limited | Blanford 006 Proprietary Limited | 100 | | 100 | |
| Wescoal Share Incentive Trust | Wescoal Holdings Limited | 100 | | 100 | |
| Keaton Energy Holdings Limited | Wescoal Holdings Limited | 100 | 564 203 | – | |
| Keaton Mining Proprietary Limited | Keaton Energy Holdings Limited | 100 | | – | |
| Keaton Administration and Technical Services Proprietary Limited | Keaton Energy Holdings Limited | 100 | | – | |
| Leeuw Braakfontein Colliery Proprietary Limited | Keaton Energy Holdings Limited | 100 | | – | |
| Lebohlano Trading 46 Proprietary Limited | Keaton Energy Holdings Limited | 100 | | – | |
| Ausco Finance Proprietary Limited | Keaton Energy Holdings Limited | 100 | | – | |
| Ausco Service Proprietary Limited | Keaton Energy Holdings Limited | 100 | | – | |
| Neosho Trading 86 Proprietary Limited | Keaton Energy Holdings Limited | 74 | | – | |
| | | | 700 029 | | 130 956 |

## 8. INTERESTS IN SUBSIDIARIES continued

The proportion of ordinary shares held by the group equals that of the proportion of ordinary shares held by each individual parent company.

| Name of company | Nature of business | Segment |
|---|---|---|
| Wescoal Trading Proprietary Limited | Buying, transport and selling of coal | Trading |
| Wescoal Mining Proprietary Limited | Mining, processing and selling of coal | Mining |
| Wescoal Mineral Recoveries Proprietary Limited | Sourcing and processing of low-grade coal | Mining |
| Wescoal Exploration Proprietary Limited | Coal exploration | Property rental and other |
| Blanford 006 Proprietary Limited | Property investment | Property rental and other |
| Proudafrique Trading 147 Proprietary Limited | Investment in coal exploration activities | Property rental and other |
| (JJP) Gedeelte 16 (van Gedeelte 2) Vlakvarkfontein Proprietary Limited | Property investment | Property rental and other |
| (JJP) Gedeelte 6 (van Gedeelte 2) Vlakvarkfontein Proprietary Limited | Property investment | Property rental and other |
| (JJP) Res van Gedeelte 2 Vlakvarkfontein Proprietary Limited | Property investment | Property rental and other |
| Wescoal Share Incentive Trust | Share incentive trust | Other |
| Keaton Energy Holdings Limited | Investments in coal mining operations | Property rental and other |
| Keaton Mining Proprietary Limited | Coal mining and exploration | Mining |
| Keaton Administration and Technical Services Proprietary Limited | Technical, managerial, financial and marketing services to subsidiaries | Property rental and other |
| Leeuw Braakfontein Colliery Proprietary Limited | Coal mining and exploration | Property rental and other |
| Lebohlano Trading 46 Proprietary Limited | Coal mining and exploration | Property rental and other |
| Ausco Finance Proprietary Limited | Investment in coal exploration and mining activities | Property rental and other |
| Ausco Service Proprietary Limited | Exploration and mining-related services | Property rental and other |
| Neosho Trading 86 Proprietary Limited | Mining, exploration of coal | Property rental and other |

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

The country of incorporation and place of business of the parent company and all subsidiaries is South Africa.

There are no significant restrictions on cash and cash equivalents.

The company's shares in subsidiaries have been pledged to Nedbank CIB as security for loans granted (refer to note 22).

## 9. PREPAID ROYALTY

Wescoal prepaid R1.50 per tonne of the royalty that was due to Proudafrique before the 100% acquisition of Elandspruit in 2015. This prepayment amounted to R12.9 million and is amortised on a units-of-production method over the life of the Elandspruit mine.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Prepaid royalty | 9 198 | 10 814 | – | – |
| | 9 198 | 10 814 | – | – |
| Non-current assets | 8 023 | 9 542 | – | – |
| Current assets | 1 175 | 1 272 | – | – |
| | 9 198 | 10 814 | – | – |
| **Reconciliation of prepaid royalty** | | | | |
| Opening balance | 10 814 | 12 240 | – | – |
| Amortisation | (1 616) | (1 426) | – | – |
| | 9 198 | 10 814 | – | – |

## 10. LOANS TO/(FROM) GROUP COMPANIES

| | COMPANY | |
|---|---|---|
| | 2018 R'000 | 2017 R'000 |
| **Subsidiaries** | | |
| Wescoal Trading Proprietary Limited | (242 090) | (93 424) |
| Blanford 006 Proprietary Limited | 33 547 | 31 672 |
| Wescoal Mineral Recoveries Proprietary Limited | (612) | (816) |
| Wescoal Exploration Proprietary Limited | (548) | (1 337) |
| Wescoal Mining Proprietary Limited | 118 952 | 168 809 |
| Proudafrique Trading 147 Proprietary Limited | (4 030) | (4 031) |
| Keaton Energy Holdings Limited | 47 215 | – |
| | (47 566) | 100 873 |
| Non-current assets | 33 547 | 31 672 |
| Current assets | 166 167 | 168 809 |
| Current liabilities | (247 280) | (99 608) |
| | (47 566) | 100 873 |

The contractual loan terms were amended on 1 April 2016. All group loans remain interest free (2017: nil). Notional interest is calculated at 10%, based on debit loans' estimated terms of repayment. Loans from group companies have no fixed terms of repayment.

Fair values are determined based on discounted cash flow valuations, and therefore fall within level 3 of the IFRS fair value hierarchy.

The inputs into the valuations are determined in accordance with estimated payment terms and market-related interest rates at the reporting date.

The fair value of loans receivable balances in the aggregate approximates R182 million, which is not substantially different from the carrying value.

The directors consider that the loans from group companies' carrying values approximate their fair values.

## 10. LOANS TO/(FROM) GROUP COMPANIES continued

### Credit risk

The risk that loans to subsidiaries will not perform as expected, which results in a loss to the company, can be defined as a credit risk.

Loans to subsidiaries are provided by the company as a general borrowing to fund ongoing operating activities. The maximum exposure to credit risk at the reporting date is the carrying amount of the loans to subsidiaries.

The company does not hold any collateral as security.

### Credit quality of loans to subsidiaries

The credit quality of loans to subsidiaries that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

None of the loans to subsidiaries are past due but not impaired.

Intercompany loans payable are subordinated in favour of Nedbank CIB (refer to note 22).

Intercompany loans receivable have been pledged as security for financing provided by Nedbank CIB (refer to note 22).

## 11. DEFERRED TAX

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Deferred tax assets | 25 519 | 9 533 | 6 151 | 3 640 |
| Deferred tax liabilities | (340 985) | (62 113) | – | – |
| | (315 466) | (52 580) | 6 151 | 3 640 |
| **Deferred tax (liability)/asset** | | | | |
| Accelerated capital allowances for tax purposes | (489 383) | (106 908) | – | – |
| Rehabilitation provision | 139 808 | 44 120 | – | – |
| Intangible assets | (1 964) | (4 155) | – | – |
| Tax losses available for set-off against future taxable income | 11 395 | – | 4 532 | – |
| Payroll-related accruals | 10 064 | 8 472 | 1 327 | 2 866 |
| Prepayments | (532) | (541) | (429) | (180) |
| Provision for bad debts | 4 804 | 3 787 | – | – |
| Income received in advance | 215 | – | – | – |
| Finance lease liability | 1 544 | – | – | – |
| Provisions | 8 583 | 2 645 | 721 | 954 |
| **Total deferred tax (liability)/asset** | (315 466) | (52 580) | 6 151 | 3 640 |
| **Reconciliation of deferred tax (liability)/asset** | | | | |
| At beginning of year | (52 580) | (14 934) | 3 640 | 4 100 |
| Keaton net deferred tax acquired (refer to note 24) | (300 469) | – | – | – |
| Charge to statement of profit or loss and other comprehensive income | 37 583 | (37 646) | 2 511 | (460) |
| | (315 466) | (52 580) | 6 151 | 3 640 |
| **Unrecognised deferred tax asset** | | | | |
| Unused tax losses not recognised as deferred tax assets | 51 439 | 175 | – | – |

## 12. OTHER RECEIVABLES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Class B preference shares | 40 435 | 36 654 | 40 435 | 36 654 |
| Loan to joint venture | 29 235 | – | – | – |
| | 69 670 | 36 654 | 40 435 | 36 654 |
| Non-current other receivables | 55 843 | 36 654 | 40 435 | 36 654 |
| Current other receivable | 13 827 | – | | – |
| | 69 670 | – | 40 435 | 36 654 |

The loan to Aztolinx comprises all start-up costs required to get the mine operational up until the first coal was mined in May 2017. These costs include the R6.7 million previously included as a non-current prepayment. No contractual loan existed prior to all conditions precedent being met and accordingly the initial payments were included as a prepayment (refer to note 16).

The loan is recoverable in 36 equal monthly instalments of R994 234 with a final payment in March 2020. Interest is charged at the prevailing interest rate of three-month JIBAR base rate plus a 3.75% margin.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Class B preference shares | 35 500 | 35 500 | 35 500 | 35 500 |
| Accumulated preference share dividend | 5 550 | 1 154 | 5 550 | 1 154 |
| Dividends received | (615) | – | (615) | – |
| | 40 435 | 36 654 | 40 435 | 36 654 |

On 20 December 2016, the company provided funding to K2016316243 (South Africa) Proprietary Limited ("BEE structured entity") by subscribing for class B cumulative redeemable preference shares in the BEE structured entity for an aggregate amount of R35.5 million (refer to note 18).

A cumulative preferential cash dividend shall be payable in respect of each class B preference share and shall be deemed to accrue daily at the prime interest rate plus 1% and be compounded monthly.

The scheduled redemption date for the class B preference shares is the fifth anniversary of the date on which the class B preference shares were issued to the company.

The BEE structured entity provided certain security in connection with the class B preference share subscription agreement to Wescoal, which security will rank behind the Industrial Development Corporation's ("IDC") security.

## 13. INVESTMENTS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Rehabilitation investments | 34 899 | 17 909 | – | – |

Reconciliation of investments

| | Opening balance R'000 | Business acquisition R'000 | Additional investments R'000 | Divestment* R'000 | Investment return R'000 | Closing balance R'000 |
|---|---|---|---|---|---|---|
| GROUP | | | | | | |
| 31 March 2018 | | | | | | |
| Old Mutual rehabilitation investment | 17 909 | – | 7 440 | (11 636) | (97) | 13 616 |
| Keaton rehabilitation investment portfolio | – | 13 239 | 7 850 | – | 194 | 21 283 |
| | 17 909 | 13 239 | 15 290 | (11 636) | 97 | 34 899 |
| 31 March 2017 | | | | | | |
| Old Mutual rehabilitation investment | 22 023 | – | 7 440 | (11 759) | 205 | 17 909 |

** The group obtained approval from the issuer of the rehabilitation guarantees to partially divest from the rehabilitation investment during the year (2017: R11.8 million) based on the confirmation that they did not require the extent of collateral that was held at the stage.*

Wescoal Mining's rehabilitation investment of R13.6 million is administered by Old Mutual Investment Services Proprietary Limited. This is an investment product referred to as a focused investment plan, which requires monthly premiums to be paid until March 2028 and where money is invested in a combination of underlying unit trusts. Old Mutual has a Ba1 credit rating.

The group acquired rehabilitation investments of R13.2 million with the Keaton business acquisition (refer to note 24). Included in these investments are Centriq, Momentum, STANLIB and Anchor Capital unit trusts where the underlying funds invest in equity instruments and money market investments, both local and foreign. Credit ratings for these institutions range between AA+ and Baa2.

The unit trust 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.

Fair value is determined based on the published unit prices of the underlying unit trust and therefore falls within level 3 of the IFRS fair value hierarchy.

These investments are pledged as security for environmental rehabilitation guarantees issued on behalf of the group.

### Market risk

The group's exposure to equity securities price risk arises from the underlying unit trust investments held by the group.

## 14. INTEREST IN JOINT VENTURE

Set out below is the joint venture of the group as at 31 March 2018 which, in the opinion of the directors, is material to the company. The joint venture listed below has share capital consisting solely of ordinary shares, which are held directly by the company. The country of incorporation or registration is also its principal place of business in South Africa, and the proportion of ownership interest is the same as the proportion of voting rights held:

| | | % of ownership interest | | Carrying amount | |
|---|---|---|---|---|---|
| Name of entity | Measurement method | 2018 % | 2017 % | 2018 R'000 | 2017 R'000 |
| GROUP | | | | | |
| Aztolinx Proprietary Limited | Equity method | 35 | – | 7 912 | – |

Aztolinx Proprietary Limited is a company which specialises in coal mining activities. The investment in joint venture is held by Wescoal Mining Proprietary Limited and is equity-accounted for. It is a strategic investment for the group which complements the activities provided by the Mining segment. The purpose of the joint venture is to acquire additional mining rights adjacent to the Triangle Operations of Khanyisa, conduct mining operations and the selling and distribution of the coal.

Aztolinx Proprietary Limited is a private entity and there is no quoted market price and fair value available.

There are no contingent liabilities relating to the group's interest in the joint venture.

Through the joint-venture agreement, Wescoal Mining Proprietary Limited is guaranteed two seats on the board of Aztolinx Proprietary Limited and participates in all significant financial and operating decisions. The group has therefore determined that it has significant influence over this entity, even though it only holds 35% of the voting rights.

### Summarised financial information for joint ventures

The tables below provide summarised financial information for joint ventures that are material to the group. The information disclosed reflects the amounts presented in the financial statements of the relevant joint ventures and not Wescoal Mining Proprietary Limited's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy:

Summarised balance sheet

| | 2018 R'000 | 2017 R'000 |
|---|---|---|
| **Current assets** | 104 680 | – |
| Cash and cash equivalents | 2 692 | – |
| Other current assets | 101 988 | – |
| Non-current assets | 27 016 | – |
| **Current liabilities** | (93 682) | – |
| Financial liabilities | (13 826) | – |
| Other current liabilities | (79 856) | – |
| **Non-current liabilities** | (15 408) | – |
| Financial liabilities | (15 408) | – |
| **Net assets** | 22 606 | – |

## 14. INTEREST IN JOINT VENTURE continued

Reconciliation of carrying amounts

| | 2018 R'000 | 2017 R'000 |
|---|---|---|
| Profit for the period | 22 606 | – |
| Other comprehensive income | – | – |
| Dividends paid | – | – |
| **Closing net assets** | 22 606 | – |
| Group's share in % | 35 | – |
| Group's share in rands | 7 912 | – |

Summarised statement of comprehensive income

| | 2018 R'000 | 2017 R'000 |
|---|---|---|
| Revenue | 148 808 | – |
| Cost of sales | (84 758) | – |
| Gross profit | 64 050 | – |
| Operating expenses | (32 878) | – |
| Operating profit | 31 172 | – |
| Net interest expense | 225 | – |
| Profit before taxation | 31 397 | – |
| Income tax expense | (8 791) | – |
| **Total comprehensive income** | 22 606 | – |

## 15. INVENTORIES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Run-of-mine stockpiles | 18 210 | – | – | – |
| Finished goods | 67 152 | 55 253 | – | – |
| Consumable stores | 14 462 | 1 608 | – | – |
| | 99 824 | 56 861 | – | – |

The group's trading division raised a R2 million provision for obsolete inventory to be written down.

Remaining inventory is carried at cost except for Wescoal Mining's Khanyisa ROM of R0.82 million and crushed product of R17.21 million, which are carried at net realisable value (2017: Rnil).

Write-downs of ROM and crushed product to net realisable value amounted to R0.2 million (2017: Rnil) and R4.46 million (2017: Rnil) respectively and were recognised as an expense and included in "Cost of sales" in profit or loss during the year ended 31 March 2018.

Keaton Mining's inventory balances (R38.9 million) have been ceded to Reichmans (refer note 22). None of the other companies have inventory pledged as security or collateral.

## 16. TRADE AND OTHER RECEIVABLES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Trade receivables | 542 945 | 238 864 | – | – |
| Provision for impairment | (15 793) | (18 034) | – | – |
| | 527 152 | 220 830 | – | – |
| Prepayments | 22 483 | 22 082 | 4 584 | 4 723 |
| Deposits | 4 766 | 4 586 | 62 | 62 |
| VAT | 9 373 | 3 226 | – | – |
| Other debtors* | 48 511 | 36 662 | 19 639 | 13 425 |
| | 612 285 | 287 386 | 24 285 | 18 210 |
| Non-current prepayments** | – | 6 739 | – | – |
| Current assets | 612 285 | 280 647 | 24 285 | 18 210 |
| | 612 285 | 287 386 | 24 285 | 18 210 |
| **Trade receivables** | | | | |
| Current | 479 208 | 180 113 | – | – |
| Past due not impaired | 47 944 | 40 717 | – | – |
| Impaired | 15 793 | 18 034 | – | – |
| | 542 945 | 238 864 | – | – |

* *An amount of R6.5 million included in other debtors pertains to remaining funds allocated for the buy-back of the company's ordinary share on open market (refer to note 18).*

** *All conditions precedent per the joint venture arrangement with Aztolinx Proprietary Limited were met and initial start-up cost of R6.7 million previously accounted for as a non-current prepayment now forms part of the long-term loan to joint venture included under other receivables (refer to note 12).*

All classes of financial assets, with the exception of trade receivables, are not past due nor impaired.

### Credit risk

The risk that counterparties or customers will not perform as expected, which results in a loss to the group, can be defined as a credit risk.

Trade receivables are divided into two classes, being those relating to the group's mining activities conducted by Wescoal Mining and Keaton Mining and those relating to Wescoal Trading's trading activities. Trade receivables for these classes are summarised in the table below:

| | Mining 2018 R'000 | Trading 2018 R'000 | Mining 2017 R'000 | Trading 2017 R'000 |
|---|---|---|---|---|
| Wescoal Mining Proprietary Limited | 263 621 | – | 102 808 | – |
| Keaton Mining Proprietary Limited | 127 473 | – | – | – |
| Wescoal Trading Proprietary Limited | – | 136 058 | – | 118 022 |
| | 391 094 | 136 058 | 102 808 | 118 022 |

## 16. TRADE AND OTHER RECEIVABLES continued

### Credit risk continued

Wescoal and Keaton Mining's sales to Eskom made up 50% (2017: 54%) of the Mining division's trade receivables balance at year-end. Eskom has a history of no defaults and a credit rating of Ba2. Sales to Sasol Mining Proprietary Limited made up 36% of the trade receivable balance for mining at year-end. Sasol Mining has a credit rating of Baa3.

Trade receivables in Wescoal Trading consist mainly of one large customer in the private sector combined with a number of customers from widespread and diverse industries. Customers include government institutions, and private-sector and mining entities with no history of default.

The group evaluates customers prior to the granting of credit. Each entity has a unique customer base that contributes to different levels of credit exposure. Entities manage credit exposure by applying prudent credit limits and constant evaluation of credit behaviour. If customers are independently rated, these ratings are used (see above). Otherwise, if there is no independent rating, management assesses the credit quality of the customer, taking into account its financial position and past experience. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The compliance with credit limits is monitored monthly in conjunction with the analysis of the receivables' ageing report.

The group's variety of customers across all industries mitigates the exposure of concentration risk resulting from credit risk.

The balance of trade debtors relates to a variety of customers who mostly have a good payment history.

The maximum exposure to credit risk is the carrying value of financial assets.

Based on the nature of the risk against the credit risk exposure, no additional collateral is generally taken against the credit risk exposures.

Receivables that are impaired were individually assessed regarding recoverability. The provision for bad debt is based on an aggregation of long-outstanding customer balances. A receivable is considered to be impaired when the customer has a history of default, is experiencing financial difficulties and/or has been handed over for litigation.

### Trade and other receivables past due but not impaired

At 31 March 2018, R34.56 million (2017: R30.05 million) and R13.39 million (2017: R10.67 million) were past due but not impaired, and related to Wescoal Trading and Mining respectively.

The ageing of amounts past due but not impaired is as follows:

| | Trading | | Mining* | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Past due | | | | |
| 30 – 60 days | 29 802 | 22 922 | 6 884 | 10 665 |
| 60 – 90 days | 3 663 | 1 751 | – | – |
| > 90 days | 1 092 | 5 379 | 6 503 | – |
| | 34 557 | 30 052 | 13 387 | 10 665 |

** Includes Wescoal Mining and Keaton Mining.*

Altogether, 90% (2017: 83%) of the balance per the ageing consists of entities within the private sector, while the remaining 10% (2017: 17%) relates to government institutions.

As of 31 March 2018, none of the company's trade and other receivables were past due but not impaired (2017: Rnil).

## 16. TRADE AND OTHER RECEIVABLES continued

### Trade and other receivables impaired

As of 31 March 2018, trade and other receivables of R15.79 million (2017: R18.03 million) were impaired and provided for. The movement in the allowance for impairment of receivables was as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Opening balance | 18 034 | 12 650 | – | – |
| Provisions for impairment | 900 | 5 537 | – | – |
| Amounts written off as uncollectable | (3 141) | (153) | – | – |
| | 15 793 | 18 034 | – | – |

100% (2017: 83%) of the provision for impairment relates to trade receivables in Wescoal Trading. Wescoal Mining (2017: 17%) and Keaton Mining had no provision for impairment.

### Pledged as security

Trade receivables with a contractual value of R119.53 million have been pledged by Wescoal Trading as security for the Nedbank CIB invoice discounting facility loan (2017: R179.12 million by Wescoal Mining and Wescoal Trading in favour of Reichmans for the revolving credit facility which has been settled during the year). Keaton Mining's trade receivables with a contractual value of R101.54 million have been pledged as security for the Reichmans confidential invoice discounting facility. Refer to note 22.

## 17. CASH AND CASH EQUIVALENTS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Cash on hand | 36 | 29 | – | – |
| Bank balances | 92 965 | 84 382 | 46 630 | 2 344 |
| Short-term deposits | 86 | – | 57 | – |
| Bank overdraft | (56 223) | (17 098) | (1) | (17 047) |
| | 36 864 | 67 313 | 46 686 | (14 703) |
| Current assets | 93 087 | 84 411 | 46 688 | 2 344 |
| Current liabilities | (56 223) | (17 098) | (1) | (17 047) |
| | 36 864 | 67 313 | 46 687 | (14 703) |

The average interest rate on bank balances approximates 0.1% (2017: 0.1%) per annum.

The average interest rate on bank overdrafts approximates 12% (2017: 10.5%) per annum and is determined based on the prime overdraft lending rate plus 2%. The group deals with reputable banks in South Africa with current national long-term ratings of Baa3.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Total amount of approved overdraft facilities | 117 000 | 17 000 | 37 000 | 17 000 |
| The total amount of undrawn facilities available for future operating activities and commitments | 60 777 | – | 36 999 | – |

## 17. CASH AND CASH EQUIVALENTS continued

Nedbank CIB granted the company and Wescoal Mining general banking facilities to the value of R20 million and R80 million respectively during the year. Overdraft balances bear interest at the prime lending rate plus 2% and are repayable on demand. The facility can be used as an overdraft facility or overnight loan and can be used for letters or guarantees of credit.

The above overdraft facilities are secured through unlimited cross suretyships and cessions of loan accounts by all group companies.

The overdraft facility granted to the company by Absa remains unchanged at R17 million and bears interest at the prime lending rate.

**Restricted cash**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Keaton acquisition (Investec Bank Limited) | – | 350 393 | – | 350 393 |
| Environmental rehabilitation (Nedbank and FNB) | 2 880 | – | – | – |
| Creditor payment guarantees (FNB) | 3 543 | – | – | – |
| | 6 423 | 350 393 | – | 350 393 |
| Non-current restricted cash | 6 423 | – | – | – |
| Current restricted cash | – | 350 393 | – | 350 393 |
| | 6 423 | 350 393 | – | 350 393 |

### Keaton acquisition

The company obtained a cash confirmation in the form of a bank guarantee from Investec Bank Limited in accordance with Regulation 111(4) and Regulation 111(5) of the Companies Regulations and in connection with the Keaton acquisition in 2017.

The guarantee was secured by a cash investment equal to the value of the guarantee, was non-negotiable and not transferable and expired on 30 June 2017 upon completion of the acquisition transaction.

### Environmental rehabilitation

These bank deposits are pledged and ceded against long-term environmental guarantees and creditor payment guarantees issued by/on behalf of the group.

## 18. SHARE CAPITAL

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| Number | 2018 '000 | 2017 '000 | 2018 '000 | 2017 '000 |
| **Authorised** | | | | |
| 500 000 000 ordinary no par value shares | | | | |
| **Reconciliation of number of shares issued:** | | | | |
| Reported at beginning of year | 362 527 | 237 532 | 362 527 | 237 532 |
| Acquisition of Keaton Energy Holdings Limited | 87 381 | – | 87 381 | – |
| BEE structured entity | – | 124 995 | – | 124 995 |
| | 449 908 | 362 527 | 449 908 | 362 527 |
| *Less:* Treasury shares held by share trust | (10 189) | (12 504) | (10 189) | (12 504) |
| *Less:* Share buy-back | (2 034) | – | (2 034) | – |
| | 437 685 | 350 023 | 437 685 | 350 023 |

## 18. SHARE CAPITAL continued

### Acquisition of Keaton Energy Holdings Limited

The company and Keaton Energy Holdings Limited ("Keaton Energy") issued a joint firm intention offer announcement on 2 February 2017 whereby the company would acquire all of the issued ordinary share capital of Keaton Energy (refer to note 24).

On 20 June 2017, the company and Keaton Energy advised that all the scheme conditions have been fulfilled and that the transaction is therefore unconditional. The consideration payable by Wescoal to Keaton Energy shareholders of R1.80 per Keaton Energy share was partly settled in cash (R1.20 per Keaton Energy share) and partly in Wescoal shares.

The share component was settled by the company in the ratio of 0.30 Wescoal shares for every 1.00 Keaton Energy share held ("switch ratio"), resulting in 87 380 876 new Wescoal shares ("consideration shares") being issued to Keaton Energy shareholders at an issue price of ca R2.05 per consideration share and the remaining dissenting shareholders being paid in cash.

Transaction costs of R3.49 million directly attributable to the issue of the shares have been netted against proceeds of R180.3 million as share capital.

### Share buy-back

The company reserved R10 million for the buy-back of its ordinary shares during the year. The funds were transferred to Legae Securities to facilitate the buy-back on its behalf. The remaining R6.4 million is included under Trade and other receivables, other debtors (refer to note 16).

During the period 22 December 2017 through 15 March 2018, 2 034 266 of the company's ordinary shares were purchased on-market. The shares were acquired at an average price of R1.77 per share, with prices ranging from R1.60 to R1.90.

These shares will be cancelled in due course and revert back to the company's authorised but unissued ordinary shares upon completion of the stepped buy-back.

The total cost of R3.6 million was deducted from share capital.

The buy-back was approved by the shareholders at the annual general meeting held on 14 November 2017.

### Unissued ordinary shares

Altogether, 50 090 173 unissued ordinary shares are under the control of the directors in terms of a resolution of members passed at the last annual general meeting. This authority remains in force until the next annual general meeting.

**Value of ordinary shares**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| Value | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| **Issued** | | | | |
| Ordinary | 695 167 | 518 651 | 695 167 | 518 651 |
| Treasury share buy-back | (3 597) | – | (3 597) | – |
| Treasury shares held by share trust | (16 224) | (18 429) | (16 224) | (18 429) |
| | 675 346 | 500 222 | 675 346 | 500 222 |

The directors are authorised to issue, allot and grant options to acquire a maximum of 29 186 272 ordinary shares in the issued share capital of the company in terms of the incentive scheme.

Proceeds from the exercise of 2 315 000 (2017: 270 000) share options by employees in 2018 amounted to R2.205 million (2017: R0.286 million) (refer to note 25).

## 19. INSTALMENT SALE AGREEMENTS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| **Contractual future instalments** | | | | |
| – within one year | 6 035 | 2 543 | – | – |
| – in second to third year inclusive | 3 237 | 567 | – | – |
| | 9 272 | 3 110 | – | – |
| *Less:* Future finance charges | (744) | (203) | – | – |
| | 8 528 | 2 907 | – | – |
| **Present value of future instalments** | | | | |
| – within one year | 5 393 | 2 355 | – | – |
| – in second to third year inclusive | 3 135 | 552 | – | – |
| | 8 528 | 2 907 | – | – |
| Non-current liabilities | 3 135 | 552 | – | – |
| Current liabilities | 5 393 | 2 355 | – | – |
| | 8 528 | 2 907 | – | – |
| **Reconciliation of instalment sale agreements** | | | | |
| Opening balance | 2 907 | 5 763 | – | – |
| Non-cash additions | 9 761 | – | – | – |
| Business combination | 329 | – | – | – |
| Cash repayments | (4 469) | (2 856) | – | – |
| Interest | 587 | 481 | – | – |
| Instalments | (5 056) | (3 337) | – | – |
| | 8 528 | 2 907 | – | – |

It is group policy to finance certain motor vehicles and equipment under instalment sale agreements.

For these motor vehicle and equipment instalment sale agreements the average finance term is three years and the average effective borrowing rate was 10.5% (2017: 11.53%). Interest rates are linked to prime plus 0.5% at the contract date.

The group financed the acquisition of a surface right for the Vanggatfontein colliery in November 2017 under an instalment sale agreement. The finance term is for 22 months with an effective borrowing rate of 10.75%. The interest rate at the contract date was the prime interest rate plus 0.5%.

The instalment sale agreements are secured by vehicles of R2.18 million (2017: R4.64 million), IT equipment of R0.159 million and surface rights of R8.86 million; all quoted at its carrying values (refer to note 5).

## 20. OTHER FINANCIAL LIABILITIES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Underground access right agreement | 5 516 | 7 513 | – | – |
| Vendor liability | 26 129 | – | – | – |
| | 31 645 | 7 513 | – | – |
| Non-current liabilities | 30 167 | 6 494 | – | – |
| Current liabilities | 1 478 | 1 019 | – | – |
| | 31 645 | 7 513 | – | – |

## 20. OTHER FINANCIAL LIABILITIES continued

### Underground access right agreement

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| **Contractual future instalments** | | | | |
| – within one year | 2 626 | 2 534 | – | – |
| – in second to third year inclusive | 6 130 | 9 091 | – | – |
| | 8 756 | 11 625 | – | – |
| *Less:* Future finance charges | (3 240) | (4 112) | – | – |
| | 5 516 | 7 513 | – | – |
| **Present value of future instalments** | | | | |
| – within one year | 1 478 | 1 019 | – | – |
| – in second to third year inclusive | 4 038 | 6 494 | – | – |
| | 5 516 | 7 513 | – | – |

The agreement with Nungu Trading 341 Proprietary Limited, whereby the group obtained the use of the underground access point and the stockpile area, is classified as a financial liability (refer to note 7).

The financial liability has been accounted for initially at fair value and subsequently at amortised cost using the effective interest method. The contractual minimum future payments have been discounted at an effective interest rate equivalent to the prime interest rate of 10.5% on transaction date. The liability will be settled in 54 monthly instalments with a final payment in May 2021.

### Vendor liability

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Acquired through business combination | 30 987 | – | – | – |
| Discount on provision unwound through profit or loss | 2 403 | – | – | – |
| Change in estimate recognised in profit or loss (reduction in reserves and extension in time to production) | (7 261) | – | – | – |
| | 26 129 | – | – | – |

The group inherited the vendor liability as part of the Keaton business acquisition (refer to note 24). Keaton Energy Holdings Limited 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 and their values at 31 March 2018 are as follows:

| | | GROUP | |
|---|---|---|---|
| | Status at 31 March 2018 | 2018 R'000 | 2017 R'000 |
| **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 | 26 129 | – |
| | | 26 129 | – |

## 21. PROVISIONS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Environmental rehabilitation | 501 245 | 157 571 | – | – |
| Non-current liabilities | 495 157 | 148 206 | – | – |
| Current liabilities | 6 088 | 9 365 | – | – |
| | 501 245 | 157 571 | – | – |

Reconciliation of provisions

| | Opening balance R'000 | Business combination (note 24) R'000 | Additions R'000 | Utilised R'000 | Time value of money and inflation component of rehabilitation R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| GROUP | | | | | | |
| 31 March 2018 | | | | | | |
| Environmental rehabilitation | 157 571 | 244 066 | 75 690 | (3 391) | 27 309 | 501 245 |
| 31 March 2017 | | | | | | |
| Environmental rehabilitation | 60 076 | – | 107 361 | (13 543) | 3 677 | 157 571 |

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. The group has made, and expects to make in the future, expenditures to comply with such laws and regulations, but cannot predict the full amount of such future expenditures. Estimated future reclamation costs are based principally on legal and regulatory requirements. The above is a reconciliation of the total liability for environmental rehabilitation.

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 present value of total estimated future rehabilitation cash flows is approximately R501.25 million (2017: R157.57 million).

The breakdown of the liability per site is as follows:

| | Khanyisa R'000 | Intibane R'000 | Elandspruit R'000 | Blesbok-laagte R'000 | Vanggat-fontein R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| 31 March 2018 | | | | | | |
| Environmental rehabilitation | 45 972 | 35 140 | 142 549 | 855 | 276 729 | 501 245 |
| 31 March 2017 | | | | | | |
| Environmental rehabilitation | 30 378 | 25 197 | 97 864 | 4 132 | – | 157 571 |

In determining the above provision, the current cost estimates as determined by environmental rehabilitation experts have been escalated to a future value at an inflation rate of 5.2% (2017: 6%) over a period of between one and ten years (2017: two and eight years). The future value was then discounted at a rate of between 6.8% and 7.99% (2017: between 7.72% and 8.62%) giving a real discount rate of between 1.6% and 2.79% (2017: between 1.72% and 2.62%). A 0.5% change in the real discount rate would change the present value of the liability by R13.89 million (2017: R4.6 million).

The mine sites are concurrently rehabilitated, of which the major part of the rehabilitation will be conducted at the end of the life of each mine site. The group utilised R3.3 million of its provision during 2018 for the rehabilitation of Blesboklaagte.

## 21. PROVISIONS continued

The provision for rehabilitation increased in line with the acquisition of Keaton Energy Holdings Limited's Vanggatfontein colliery and continued expansions at Elandspruit mine in the year under review. In addition, the group's method of calculation of estimated rehabilitation costs has continued to evolve in line with current developments in legislation. The group capitalised R72.20 million of the change in estimate to mineral properties (2017: R107.4 million) and expensed R1.6 million to profit or loss for the year (2017: Rnil).

The expected life of mine for each mine site as at 31 March 2018 is as follows:

| | Khanyisa | Intibane | Elandspruit | Blesbok-laagte | Vanggat-fontein |
|---|---|---|---|---|---|
| Life of mine | 48 months | 16 months | 7 years | – | 10 years |

The group intends to finance the ultimate rehabilitation costs from the money invested in and ongoing contributions to environmental rehabilitation investments, as well as the proceeds on sale of assets at the time of mine closure. The group has guarantees in place relating to environmental liabilities. These guarantees have been issued by third parties on behalf of the group.

| | 2018 R'000 | 2017 R'000 |
|---|---|---|
| **Net undiscounted obligation** | | |
| Estimated rehabilitation cost (undiscounted) | 586 283 | 183 440 |
| Amounts invested in rehabilitation investment (refer to note 13) | (34 899) | (17 909) |
| **Total net undiscounted obligation** | 551 384 | 165 531 |
| **Guarantees** | | |
| Environmental rehabilitation guarantees issued to the DMR | 106 027 | 44 727 |
| Environmental rehabilitation guarantees issued to other parties | 6 259 | 6 259 |
| | 112 286 | 50 986 |

These guarantees have been issued by third parties on behalf of the group and are secured by a cession over the rehabilitation investments and cash and cash equivalents (refer to notes 13 and 17), together with other group sureties and indemnities.

## 22. INTEREST-BEARING BORROWINGS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| **Held at amortised cost** | | | | |
| Investec Bank Limited (business acquisition finance) | – | 75 509 | – | 75 509 |
| Investec Bank Limited (property finance) | – | 11 564 | – | – |
| Nedbank CIB (RCF) | 223 200 | – | – | – |
| Nedbank CIB (IDF) | 69 070 | – | – | – |
| Investec Group of Companies – Reichmans Proprietary Limited* | – | 216 276 | – | – |
| Investec Group of Companies – Reichmans Proprietary Limited* (CID loan) | 88 286 | – | – | – |
| Vitol SA – US dollar loan | 36 455 | – | – | – |
| Gunvor SA – US dollar loan | 33 294 | – | – | – |
| Pentalin Trading 56 Proprietary Limited | 102 | 8 743 | – | – |
| Coaltoll Proprietary Limited | – | 2 582 | – | – |
| | 450 407 | 314 674 | – | 75 509 |

** Reichmans Proprietary Limited is a member of the Investec Group of Companies.*

## 22. INTEREST-BEARING BORROWINGS continued

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Non-current liabilities | 193 956 | 60 553 | – | 50 763 |
| Current liabilities | 256 451 | 254 121 | – | 24 746 |
| | 450 407 | 314 674 | – | 75 509 |

Reconciliation of interest-bearing borrowings

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| At beginning of year | 314 674 | 233 819 | 75 510 | 29 883 |
| Cash advances received | 384 170 | 110 477 | – | 68 381 |
| Business acquisition | 227 285 | – | – | – |
| Accrued interest | 4 253 | – | – | – |
| Cash repayments | (472 115) | (29 622) | (75 510) | (22 754) |
| Finance costs | 34 138 | 23 500 | 4 197 | 5 506 |
| Payments | (506 253) | (53 122) | (79 707) | (28 260) |
| Foreign exchange | (7 860) | – | – | – |
| | 450 407 | 314 674 | – | 75 510 |

Refer to note 3 for the repayment profile of interest-bearing borrowings.

### Investec Bank Limited – business acquisition finance

The Investec Bank Limited loan related to financing provided by Investec to Wescoal Holdings Limited to finance prior acquisitions, as recently as the prior year, was settled in full during the year.

The loan bore interest at the prime overdraft lending rate plus 1%, was repayable in quarterly instalments and was secured by, inter alia, properties of Blanford 006 Proprietary Limited and, inter alia, movable assets of Wescoal Mining Proprietary Limited and Wescoal Trading Proprietary Limited, among others. The company's shares in subsidiaries were pledged as security for the loan.

### Investec Bank Limited – property finance

The Investec Bank Limited property finance loan, which related to financing provided by Investec to Blanford 006 Proprietary Limited for the purchase of property as part of the MacPhail acquisition in 2014 and Portion 24 of Farm Rietfontein 286 in 2016, was settled in full during the year.

The Rietfontein loan bore interest at the prime overdraft lending rate, was repayable in 60 instalments and early-settled during 2018. The loan was secured by Portion 24 of Farm Rietfontein.

The MacPhail loan bore interest at the prime overdraft lending rate less 0.5%, was repayable in 60 instalments with a balloon payment at maturity date and early-settled during 2018. The loan was secured by, inter alia, properties of Blanford 006 Proprietary Limited and the company's shares in subsidiaries used to be pledged as security.

## 22. INTEREST-BEARING BORROWINGS continued

### Nedbank CIB – revolving credit facility ("RCF")

During the year, Wescoal Mining secured a four-year R220 million reducing balance revolving credit facility through Nedbank CIB. The facility is utilised for general business purposes and bears interest at a three-month JIBAR base rate plus a 3.75% margin. Interest payments under the facility are being made quarterly in arrears, with the first payment due three months after the financial close of 26 October 2017. The final payment is due on the final maturity date, which is four years from financial close.

The facility is repayable in four equal instalments of R55 million each over the next four years. The first capital repayment is due in October 2018. The outstanding loan amount of R224.3 million at year-end comprises R220 million capital and accrued interest of R4.3 million.

The following securities have been granted in favour of Nedbank CIB: mortgage bonds over Wescoal Mining's mining rights and immoveable property; a special notorial bond over plant and other immoveable equipment; a general notarial bond over moveable assets; cessions over the group's material subsidiaries' bank accounts, debtors and insurances; cessions over Wescoal Mining's material contracts; and a cession and pledge of all Wescoal Holdings Limited's shares in and claims against Nedbank BIC.

### Nedbank CIB – invoice discounting facility ("IDF")

During the year, Wescoal Trading secured a R120 million scalable secured debtors receivable facility through Nedbank CIB. The facility will be utilised to finance working capital elements of Wescoal Trading's operations via an invoice discounting facility at an advance rate of 80% of the debtors book. The facility bears interest at the prime lending rate, accrued on a day-to-day basis and is payable in arrears on the last day of each interest period. Capital repayments are due on the last day of each interest period to the extent that the maximum cover ratio of 1.3 times is breached or the facility outstanding exceeds the facility amount.

The facility's security package consists of a pledge and cession of all Wescoal Trading's cash balances, bank accounts and investments; a pledge and cession of its accounts receivable and insurance policies and any proceeds thereof; and a pledge and cession of Wescoal Holding's rights and obligations under the coal supply agreement and/or purchase order.

The loan is secured by certain trade receivables of Wescoal Trading with a contractual value of R119 532 178 at 31 March 2018.

### Investec Group of Companies – Reichmans Proprietary Limited

The Reichmans Proprietary Limited loan formed part of a R200 million working capital facility provided to the group by Investec Group of Companies. The revolving credit facility and intra-month overdraft on the overall facility up to a maximum of R50 million were settled in full during the year.

The loans bore interest at the prime overdraft lending rate plus 0.5% and were secured by trade receivables of Wescoal Mining Proprietary Limited and Wescoal Trading Proprietary Limited.

### Investec Group of Companies – Reichmans Proprietary Limited (CID loan)

The group's Keaton Mining Proprietary Limited secured a confidential invoice discounting ("CID") facility with Reichmans during February 2018 for the lesser of R100 million or 80% of qualifying debtors.

The loan bears interest at the prime overdraft lending rate plus 1.25%, and a monthly administration fee of R40 000, excluding VAT, is payable. The loan is secured by, among others, trade receivables of Keaton Mining Proprietary Limited with a contractual value of R101.5 million at 31 March 2018, an unlimited guarantee by Keaton Energy Holdings Limited, supported by a pledge and cession of all its rights, title and interest in and to all shares held in and all claims which it has against Keaton Mining, as well as a general notarial covering bond for a capital amount of R350 million over all moveable assets.

The fair values of the loans are not materially different to their carrying amounts, since the interest payable on these loans is close to current market rates.

## 22. INTEREST-BEARING BORROWINGS continued

### Vitol SA – US dollar loan

The Vitol SA loan of R36.5 million originated in July 2008, when Leeuw Braakfontein Colliery Proprietary Limited ("LBC"), a subsidiary within the acquired Keaton group of companies, 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 had a prefinance loan clause where Vitol SA paid an amount of USD5.5 million to LBC to assist with the development of the Braakfontein mine within LBC and to enable LBC to meet its obligations to supply coal under the agreement.

This loan bears interest at the one-year US dollar 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 by USD12 per tonne of coal supplied to Vitol SA.

Due to the fact that production had not commenced at the Braakfontein mine, the repayment terms were amended on 3 September 2015. The revised terms require the loan to be repaid in cash in monthly instalments of USD0.1 million, effective from 30 September 2015. Total repayments of R11.8 million were made since the group's acquisition of LBC.

Interest is charged on outstanding amounts of the loan at the one-year US dollar LIBOR rate, as quoted, two banking days prior to the end of the calendar month, plus a 3% margin (being the rate of interest, nominal annual compounded monthly in arrears at the end of each calendar month and calculated on a 360-day year). Interest rate as at 31 March 2018 was 5.66%.

During the year, the pledge and security by LME were replaced by an unlimited guarantee, pledge and cession by Keaton Energy Holdings Limited in favour of Vitol SA in respect of the obligations of LBC under the loan agreement, its shares in LBC and a security cession by Keaton Energy Holdings Limited of its rights, title and interest in and to its shares held in and claims against the loan account of LBC.

Vitol SA is not a related party of the Wescoal group.

The fair value of the loan is not materially different to its carrying amount, since the interest payable is close to current market rates.

### Gunvor SA – US dollar loan

During the 2014 year, Neosho Trading 86 Proprietary Limited, a subsidiary within the recently acquired Keaton group, entered into a coal sales agreement with Gunvor SA ("Gunvor") for the supply of 600 000 tonnes of coal to be delivered from its Moabsvelden Project over a 22-month period from 1 January 2015 to 31 October 2016. This agreement had a prefinance loan clause where Gunvor paid an amount of USD4 million to assist with the development of the Moabsvelden Project and to enable the company to meet its obligations to supply coal under the agreement.

Due to delays beyond the control of the company, being the granting of an integrated water use Licence and the conclusion of a coal supply agreement with Eskom, production did not commence by 31 December 2015 as required and the repayment terms were amended. The company commenced repayment of the loan in monthly instalments of USD0.1 million from November 2016. Current monthly instalments are USD0.2 million, with the final instalment payable by June 2019. The loan bears interest at a nominal rate of 5.31% compounded monthly in arrears.

Gunvor SA is not a related party of the Wescoal group.

The fair value of the loan is not materially different to its carrying amount, since the interest payable is close to current market rates.

### CoalToll Proprietary Limited

The agreement with CoalToll Proprietary Limited was for the construction and commissioning of a fines plant, which operates in conjunction with the Muhanga processing plant.

The CoalToll Proprietary Limited loan was unsecured, bore interest at a fixed rate of 13.50% and was payable in 36 monthly instalments of R391 963. Repayment commenced in November 2014 and the loan was settled in full during the year.

## 22. INTEREST-BEARING BORROWINGS continued

### Pentalin Trading 56 Proprietary Limited

The Pentalin 56 Proprietary Limited loan was entered into to co-finance the construction of the fines plant in conjunction with CoalToll Proprietary Limited. This loan is unsecured, bears interest at a fixed rate of 12.50% and is payable in 36 monthly instalments of R166 129. Payment commenced in January 2015 and the loan was settled in full during October 2017.

During the 2016 financial year, the company entered into a second loan with Pentalin 56 Proprietary Limited to finance the ROM plant. This loan is unsecured, bears interest at a fixed rate of 11.5% and is payable in 36 monthly instalments of R670 160. Payment commenced in May 2015.

Pentalin Trading 56 Proprietary Limited is not a related party of the Wescoal group.

The fair value of the loan is not materially different to its carrying amount, since the interest payable is close to current market rates.

Investec Bank Limited – term facility

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Business acquisition | 114 784 | – | – | – |
| Finance costs | 7 171 | – | – | – |
| Payments | (121 955) | – | – | – |
| | – | – | – | – |

Investec Bank Limited – working capital facility

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Business acquisition | 12 515 | – | – | – |
| Advances | 7 601 | – | – | – |
| Finance costs | 1 351 | – | – | – |
| Payments | (21 467) | – | – | – |
| | – | – | – | – |

The group inherited Keaton Mining's term facility and working capital facilities with Investec Bank Limited as part of the Keaton acquisition.

Keaton Mining obtained these facilities to settle a prior project finance facility with Nedbank Limited and to partially fund acquisitions. On acquisition date, R114.8 million and R12.5 million were outstanding on the term and working capital facilities respectively.

The term facility bore interest at the three-month JIBAR plus a margin of 4%. Commitment fees of 1% annually of undrawn facilities apply 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 a final payment on 31 October 2018.

The working capital facility bore interest at the one-month JIBAR plus a margin of 3.75%. Commitment fees of 0.75% annually on undrawn facilities applied, which was payable to the lender. The working capital facility was renewable annually.

Various guarantees, representations, warrants, undertakings, cessions, indemnities and pledges, normal to these financing arrangements, have been given by the Keaton group to the lender.

The group settled both facilities during March 2018, partially funded by proceeds from the new Nedbank CIB facilities.

## 23. TRADE AND OTHER PAYABLES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Trade payables | 400 154 | 249 206 | 3 068 | 986 |
| VAT | 5 417 | 1 894 | 219 | 176 |
| Accruals | 27 792 | 12 810 | 33 108 | 11 238 |
| Payroll accruals | 46 981 | 35 117 | 13 994 | 11 990 |
| Other payables | 44 170 | 18 481 | 2 876 | 2 776 |
| Deferred revenue* | – | 14 355 | – | – |
| | 524 514 | 331 863 | 53 265 | 27 166 |

** The Yoctolux mining void that was acquired during 2017 was compensated for by delivering 66 768 tonnes of coal over six months. The deferred revenue value was based on current market prices at the time of concluding the agreement and realised upon delivery of coal mined.*

## 24. BUSINESS ACQUISITION

### Acquisition of Keaton Energy Holdings Limited

The board of directors and management are committed to growing the asset base and earnings of the group, while driving shareholder value. The implementation of the BEE transaction in December 2016 significantly strengthened the equity capitalisation and liquidity of the group.

On 2 February 2017, the company announced its firm intention offer to acquire all of the issued ordinary share capital of Keaton Energy Holdings Limited ("Keaton Energy"). Both the company and Keaton Energy advised their shareholders on 20 June 2017 that all scheme conditions had been fulfilled and that the scheme had become unconditional on that date.

On 20 June 2017 (the effective date), the group acquired the entire issued share capital of Keaton Energy for a total consideration of R564 million.

The acquisition of Keaton Energy was accounted for in terms of IFRS 3 (revised): *Business Combinations*, and consequently the results of Keaton Energy were consolidated by Wescoal from the acquisition date.

The consideration payable by Wescoal to Keaton Energy shareholders was partly settled in cash at R1.20 per Keaton Energy share, a once-off cash payment of R30.2 million (in terms of the ESOP waiver payments) paid to Keaton Energy employees who held share incentive instruments and an ad hoc cash amount which was paid to certain dissenting shareholders. The remaining purchase consideration was settled in Wescoal ordinary shares at the ratio of 0.30 Wescoal share for every one Keaton Energy share held.

The cash portion of the consideration amounted to R384 million, which was funded by the company through a combination of internal cash resources, existing debt facilities and the cash raised by the company through its BEE transaction implemented in December 2016. The share portion of the consideration amounted to R180 million at a market price of R2.05 per share. The company issued 87.8 million shares to Keaton Energy shareholders.

## 24. BUSINESS ACQUISITION continued

Details of the purchase consideration are as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Cash component | 351 222 | – | | – |
| Share component* | 180 001 | – | | – |
| Cash of R30.2 million in terms of the ESOP waiver payments** | 30 221 | – | | – |
| Dissending shareholders | 2 700 | – | | – |
| | 564 144 | – | | – |

** Calculated as 87 380 876 Wescoal shares to be issued as part of the scheme consideration at R2.06 per Wescoal share being the Wescoal share price on 20 June 2017 when the scheme became unconditional.*

*** The ESOP waiver payments to be paid to Keaton Energy employees who held share incentive instruments.*

The cash component of the consideration, as well as other expenses related to the offer, was funded by the company through a combination of internal cash resources, existing debt facilities and the cash raised by the company through its BEE transaction implemented in December 2016.

The determination of the fair value of net assets acquired amounted to R581 million before minority interest of R9.8 million, resulting in a bargain purchase gain being recorded in the statement of profit or loss for the period of R6.6 million. The bargain purchase gain originated from the group's ability to further develop Keaton Energy's Moabsvelden asset.

### Property, plant and equipment

The fair value of the plant was obtained from an external valuer using a factor of comparable projects.

### Mineral rights included in life-of-mine plan

The value of mineral reserves relating to the current life-of-mine plan was valued using a discounted cash flow per the life-of-mine plan. The long-term real coal price used is R375/tonne. A real discount rate of 13% was used.

### Mineral rights outside the life-of-mine plan

Independent experts were used to value the mineral resources outside the life-of-mine plan. The valuation was performed using the comparable transaction valuation methodology. This methodology involves determining the in situ mineral reserves and resources of specific properties within the context of other mineral property valuation. For in situ coal tonnes a value of a range between R1.2/tonne and R3.48/tonne was used.

## 24. BUSINESS ACQUISITION continued

### Deferred tax

Deferred tax was calculated on the full difference between the fair values calculated above and the tax basis at a rate of 28%.

The final determination of the fair values of identifiable assets and liabilities acquired has been done and comprises:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Property, plant and equipment | 1 344 568 | – | – | – |
| Intangible assets | 1 682 | – | – | – |
| Restricted cash | 6 423 | – | – | – |
| Equity investments | 5 135 | – | – | – |
| Restricted investments | 8 104 | – | – | – |
| Inventories | 34 524 | – | – | – |
| Trade and other receivables | 181 341 | – | – | – |
| Cash and cash equivalents | 8 344 | – | – | – |
| Borrowings | (227 285) | – | – | – |
| Finance leases | (329) | – | – | – |
| Environmental rehabilitation provision | (244 066) | – | – | – |
| Vendor liability | (30 987) | – | – | – |
| Net deferred taxation liability | (300 469) | – | – | – |
| Trade and other payables | (192 728) | – | – | – |
| Taxation | (13 700) | – | – | – |
| Net identifiable assets acquired | 580 557 | – | – | – |
| *Less:* Non-controlling interest | (9 775) | – | – | – |
| *Less:* Gain on bargain purchase | (6 638) | – | – | – |
| | 564 144 | – | – | – |

### Acquisition-related costs

Acquisition related costs of R27.6 million are included in operating expenses in the statement of profit or loss, and R3.49 million, relating to the issue of Wescoal shares, was capitalised to equity (refer to note 18).

### Acquired receivables

The fair value of trade and other receivables is R181 million and includes trade receivables with a fair value of R127 million. The gross contractual amount for trade receivables due is R127 million, of which Rnil is expected to be uncollectable.

### Non-controlling interest

The group has chosen to recognise the non-controlling interest at its fair value for the acquisition. The fair value of the non-controlling interest in Neosho Trading 86 Proprietary Limited, an unlisted company, was recognised at 26% of the Moabsvelden Project's net asset value on date of acquisition. The net asset value comprises the Moabsvelden mineral right investment, net of deferred tax and other liabilities.

### Revenue and profit contribution

The acquired business contributed revenue of R952 million and net profit of R76 million to the group for the period from 20 June 2017 to 31 March 2018. If the acquisition had occurred on 1 April 2017, the contribution to revenue and profit after tax for the year ended 31 March 2018 would have been R1 223 million and R51 million respectively.

## 25. SHARE-BASED PAYMENTS

### Information on options granted during the year

The fair value of options are determined at grant date using the Black-Scholes model. The expense is recognised on a straight-line basis over the duration of the scheme.

The following inputs were used in the valuation of options granted:

| | 2018 | 2017 |
|---|---|---|
| Weighted average share price (cents) | 229 | 246 |
| Expected volatility (%) | 60 | 60 |
| Option life (years) | 5 | 5 |
| Expected dividend yield (%) | 1.598 | 0.6 |
| Risk-free interest rate (%) | 8.19 | 8.1 |

Middle and senior management qualify to take part in the scheme. The duration of each issue is five years, and one-fifth of the options vests at each year-end. The only vesting condition is that employees must remain in the service of Wescoal for the duration of the scheme. The right to exercise the options is relinquished should the employee not remain in Wescoal's service for the duration of the scheme. There are no market performance conditions. Volatility is calculated based on the daily share price history for the preceding five years.

Service conditions are included in assumptions about the number of options that are expected to vest based on the non-market vesting conditions. The impact of the revision to original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the shares held by the Wescoal Share Incentive Trust are issued to the employee. The proceeds received, net of any directly attributable transaction costs, are credited to share capital. The Wescoal Share Incentive Trust is a structured entity and is consolidated into the group and company financial statements.

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

Movements in the number of share options outstanding and their related weighted average share price at exercise date of options are as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Average exercise price in cents per share option | Options '000 | Average exercise price in cents per share option | Options '000 |
| At beginning of year | 169 | 9 740 | 147 | 8 400 |
| Granted | 213 | 2 994 | 246 | 1 850 |
| Options exercised | (95) | (2 315) | (106) | (270) |
| Options forfeited | (238) | (1 150) | (204) | (240) |
| At end of year | 193 | 9 269 | 169 | 9 740 |

Of the 9.3 million (2017: 9.7 million) outstanding options, 3.68 million (2017: 4.2 million) options were exercisable at 31 March 2018.

## 25. SHARE-BASED PAYMENTS continued

### Information on options granted during the year continued

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

| Grant date | Expiry date | Exercise price in cents per share | Share options 2018 '000 | Share options 2017 '000 |
|---|---|---|---|---|
| 9 June 2010 | 8 June 2015 | 106 | – | 30 |
| 6 August 2012 | 5 August 2017 | 90 | – | 340 |
| 29 August 2012 | 28 August 2017 | 86 | 340 | 2 000 |
| 4 November 2013 | 3 November 2018 | 206 | – | 120 |
| 8 November 2013 | 7 November 2018 | 212 | 2 000 | 2 000 |
| 22 July 2014 | 21 July 2019 | 181 | 700 | 700 |
| 28 August 2014 | 27 August 2019 | 172 | 400 | 600 |
| 4 November 2014 | 3 November 2019 | 185 | 1 000 | 1 000 |
| 25 November 2015 | 24 November 2020 | 111 | 985 | 1 100 |
| 28 November 2016 | 27 November 2021 | 246 | 850 | 1 850 |
| 28 September 2017 | 28 September 2022 | 213 | 2 994 | – |
| | | | 9 269 | 9 740 |

## 26. FINANCIAL ASSETS BY CATEGORY

| | Loans and receivables R'000 | At fair value through profit or loss R'000 | Non-financial assets R'000 | Total R'000 |
|---|---|---|---|---|
| GROUP | | | | |
| 31 March 2018 | | | | |
| Trade and other receivables | 580 429 | – | 31 856 | 612 285 |
| Investments* | – | 34 899 | – | 34 899 |
| Other receivable | 69 670 | – | – | 69 670 |
| Cash and cash equivalents | 93 087 | – | – | 93 087 |
| Restricted cash | 6 423 | – | – | 6 423 |
| | 749 609 | 34 899 | 31 856 | 816 364 |
| 31 March 2017 | | | | |
| Trade and other receivables | 262 078 | – | 25 308 | 287 386 |
| Investments* | – | 17 909 | – | 17 909 |
| Other receivable | 36 654 | – | – | 36 654 |
| Cash and cash equivalents | 84 411 | – | – | 84 411 |
| Restricted cash | 350 393 | – | – | 350 393 |
| | 733 536 | 17 909 | 25 308 | 776 753 |

** These investments with a number of financial institutions were invested to assist with the payment of rehabilitation at the end of the LOM.*

## 26. FINANCIAL ASSETS BY CATEGORY continued

| | Loans and receivables R'000 | Non-financial assets R'000 | Total R'000 |
|---|---|---|---|
| COMPANY | | | |
| 31 March 2018 | | | |
| Trade and other receivables | 19 701 | 4 584 | 24 285 |
| Loans to group companies | 199 714 | – | 199 714 |
| Cash and cash equivalents | 46 688 | – | 46 688 |
| Other receivable | 40 435 | – | 40 435 |
| | 306 538 | 4 584 | 311 122 |
| 31 March 2017 | | | |
| Trade and other receivables | 13 487 | 4 723 | 18 210 |
| Loans to group companies | 200 481 | – | 200 481 |
| Cash and cash equivalents | 2 344 | – | 2 344 |
| Other receivable | 36 654 | – | 36 654 |
| Restricted cash | 350 393 | – | 350 393 |
| | 603 359 | 4 723 | 608 082 |

## 27. FINANCIAL LIABILITIES BY CATEGORY

| | Financial liabilities at amortised cost R'000 | Non-financial liabilities R'000 | Total R'000 |
|---|---|---|---|
| GROUP | | | |
| 31 March 2018 | | | |
| Interest-bearing borrowings | 450 407 | – | 450 407 |
| Trade and other payables | 455 710 | 68 804 | 524 514 |
| Instalment sale agreements | 8 528 | – | 8 528 |
| Other financial liabilities | 31 645 | – | 31 645 |
| Bank overdraft | 56 223 | – | 56 223 |
| | 1 002 513 | 68 804 | 1 071 317 |
| 31 March 2017 | | | |
| Interest-bearing borrowings | 314 674 | – | 314 674 |
| Trade and other payables | 264 564 | 67 299 | 331 863 |
| Instalment sale agreements | 2 907 | – | 2 907 |
| Other financial liabilities | 7 513 | – | 7 513 |
| Bank overdraft | 17 098 | – | 17 098 |
| | 606 756 | 67 299 | 674 055 |

## 27. FINANCIAL LIABILITIES BY CATEGORY continued

| | Financial liabilities at amortised cost R'000 | Non-financial liabilities R'000 | Total R'000 |
|---|---|---|---|
| COMPANY | | | |
| 31 March 2018 | | | |
| Trade and other payables | 38 752 | 14 513 | 53 265 |
| Loans from group companies | 247 280 | – | 247 280 |
| Bank overdraft | 1 | – | 1 |
| | 286 033 | 14 513 | 300 546 |
| 31 March 2017 | | | |
| Trade and other payables | 14 698 | 12 468 | 27 166 |
| Loans from group companies | 99 608 | – | 99 608 |
| Interest-bearing borrowings | 75 509 | – | 75 509 |
| Bank overdraft | 17 047 | – | 17 047 |
| | 206 862 | 12 468 | 219 330 |

## 28. REVENUE

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Sale of goods | 3 514 527 | 2 118 020 | – | – |
| Administration fees | 12 530 | – | 48 433 | 44 377 |
| Dividend received | – | – | 50 000 | – |
| Interest revenue (refer to note 32) | – | – | 16 070 | 30 776 |
| | 3 527 057 | 2 118 020 | 114 503 | 75 153 |

## 29. COST OF SALES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Direct purchases | 1 769 591 | 1 188 527 | – | – |
| Royalty expense | 59 578 | 22 739 | – | – |
| Mining contractor cost | 771 563 | 285 735 | – | – |
| Consumables and maintenance cost | 14 753 | 2 392 | – | – |
| Staff cost | 54 758 | 32 791 | – | – |
| Fuel | 183 536 | 91 615 | – | – |
| Amortisation and depreciation of assets | 107 815 | 67 692 | – | – |
| Mining overhead and other cost | 449 | 59 071 | – | – |
| | 2 962 043 | 1 750 562 | – | – |

## 30. OTHER INCOME

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Profit on property, plant and equipment | 886 | 933 | – | – |
| Foreign exchange gain | 7 909 | – | – | – |
| Vendor liability change in estimate | 7 261 | – | – | – |
| Other* | 8 152 | 2 912 | 695 | – |
| | 24 208 | 3 845 | 695 | – |

** Includes fair value return of R0.097 million (2017: R0.205 million) on rehabilitation investment.*

## 31. OPERATING PROFIT/(LOSS)

Operating profit/(loss) for the year is stated after accounting for the following:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| **Operating lease charges** | | | | |
| Premises | | | | |
| – Contractual amounts | 14 220 | 4 547 | 1 456 | 408 |
| Net profit on sale of assets | (886) | (933) | – | – |
| BEE discount (refer to note 18) | – | 82 280 | – | 82 280 |
| Gain on bargain purchase (refer to note 24) | 6 638 | – | 6 638 | – |
| Share-based payment expense | 1 644 | 1 413 | 679 | 477 |
| Depreciation | 183 103 | 73 881 | 352 | 122 |
| Amortisation of intangible assets | 11 046 | 7 825 | 271 | – |
| Foreign exchange gain | (7 909) | – | – | – |
| Employee costs* | 107 425 | 95 388 | 34 296 | 30 181 |
| Auditor's remuneration | 3 577 | 2 500 | 3 577 | 2 500 |
| Consulting fees** | 28 408 | 18 275 | 15 294 | 8 155 |
| Repairs and maintenance | 14 883 | 10 921 | 64 | 50 |
| Computer expenses | 9 259 | 5 337 | 1 291 | 497 |

** Employee costs include an amount of R5.03 million (2017: R5.19 million) relating to the medical and provident fund contributions paid by the group in the year under review. The group has no defined benefit pension plans or post-retirement medical obligations.*

*** Consulting fees include an amount of R27.6 million relating to costs incurred in the acquisition of Keaton Energy Holdings Limited (refer to note 24).*

## 32. INTEREST INCOME

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| **Interest revenue** | | | | |
| Other | 10 144 | 2 015 | 5 641 | 1 377 |
| Interest on bank deposits | 8 469 | 4 760 | 7 126 | 4 759 |
| Interest received on group loans | – | – | 3 303 | 24 640 |
| | 18 613 | 6 775 | 16 070 | 30 776 |
| Disclosed as revenue | – | – | (16 070) | (30 776) |
| | 18 613 | 6 775 | – | – |

Interest received on group loans for 2018 comprise notional interest calculated at 10% (2017: 10%).

## 33. FINANCE COSTS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Interest-bearing borrowings | 37 487 | 23 500 | 4 197 | 5 505 |
| Provision for rehabilitation: Unwinding of discount | 27 309 | 3 677 | – | – |
| Bank overdrafts | 12 388 | 1 396 | 1 955 | 419 |
| Instalment sale agreements | 587 | 481 | – | – |
| Other | 1 354 | 171 | 10 | 1 |
| South African Revenue Services | 268 | 400 | – | – |
| Total finance costs | 79 393 | 29 625 | 6 162 | 5 925 |
| *Less:* Amounts capitalised on qualifying assets | – | – | – | – |
| | 79 393 | 29 625 | 6 162 | 5 925 |

## 34. TAXATION

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| **Major components of the tax expense** | | | | |
| **Current** | | | | |
| Local income tax – current period | 114 641 | 31 221 | – | 763 |
| Local income tax – prior period | 12 461 | 827 | – | – |
| | 127 102 | 32 048 | – | 763 |
| **Deferred** | | | | |
| Temporary differences – current period | (29 926) | 31 637 | (2 511) | 639 |
| Temporary differences – prior period | (7 657) | 6 009 | – | (179) |
| **Income tax expense/(recovery)** | 89 519 | 69 694 | (2 511) | 1 223 |

## 34. TAXATION continued

### Reconciliation of the tax expense

The tax on the group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Accounting profit/(loss) before tax | 291 533 | 99 894 | 44 479 | (63 498) |
| Tax at the applicable tax rate of 28% (2017: 28%) | 81 629 | 27 970 | 12 454 | (17 779) |
| **Tax effect of adjustment on taxable income:** | | | | |
| **Non-deductible expenses** | | | | |
| – Share-based payment expense | 460 | 396 | 190 | 134 |
| – Penalties, interest and other non-taxable items | 7 414 | 2 619 | 4 | 3 231 |
| – Amortisation of mineral right | 9 083 | 9 212 | – | – |
| – BEE discount | – | 23 038 | – | 23 038 |
| **Non-taxable income** | | | | |
| – Dividend received | – | – | (14 000) | – |
| – Notional interest received on group loans | – | – | (925) | (6 899) |
| – Interest on preference shares | (1 231) | (323) | (1 231) | (323) |
| – Gain on bargain purchase | (1 859) | – | (1 859) | – |
| – Share of net profit of joint venture | (2 215) | – | – | – |
| Deferred tax not recognised as assessed loss | (8 566) | 3 | 2 856 | – |
| Adjustment in respect of prior periods | 4 804 | 6 836 | – | (179) |
| Capital gain taxed at lower rate | – | (57) | – | – |
| | 89 519 | 69 694 | (2 511) | 1 223 |

## 35. EARNINGS PER SHARE

### Basic earnings per share

Basic earnings per share is determined by dividing profit or loss attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

| | GROUP | |
|---|---|---|
| | 2018 R'000 | 2017 R'000 |
| **Basic earnings per share** | | |
| From continuing operations (cents per share) | 48.11 | 11.64 |
| Basic earnings per share was based on earnings of R201.40 million (2017: R30.20 million) and a weighted average number of ordinary shares of 418.61 million (2017: 259.56 million). | | |
| **Profit used to calculate earnings per share** | | |
| Profit for the year attributable to equity holders of the parent | 201 401 | 30 200 |

## 35. EARNINGS PER SHARE continued

### Diluted earnings per share

In the determination of diluted earnings per share, profit attributable to the equity holders of the parent and the weighted average number of ordinary shares are adjusted for the effects of all dilutive potential ordinary shares.

| | GROUP | |
|---|---|---|
| | 2018 R'000 | 2017 R'000 |
| **Diluted earnings per share** | | |
| From continuing operations (cents per share) | 48.06 | 11.61 |

Diluted earnings per share was based on earnings of R201.40 million (2017: R30.20 million) and a weighted average number of ordinary shares of 419.09 million (2017: 260.06 million).

| | GROUP | |
|---|---|---|
| | 2018 R'000 | 2017 R'000 |
| **Reconciliation of weighted average number of ordinary shares used for earnings per share to weighted average number of ordinary shares used for diluted earnings per share** | | |
| Weighted average number of ordinary shares used for basic earnings per share | 418 606 | 259 559 |
| **Adjusted for:** | | |
| Share options in terms of the Wescoal Share Incentive Trust* | 483 | 499 |
| | 419 089 | 260 058 |

** Diluted earnings reflected showing the potential effect of dilution for 9.27 million (2017: 9.74 million) options held in terms of the Wescoal Share Incentive Trust by the directors and employees to subscribe to new shares in Wescoal.*

### Headline earnings and diluted headline earnings per share

Headline earnings and diluted headline earnings are determined by adjusting basic earnings and diluted earnings by excluding separately identifiable remeasurement items in terms of the JSE headline earnings circular, HEPS Circular 2/2013.

Headline earnings and diluted headline earnings are presented before and after tax.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Before tax R'000 | After tax R'000 | Before tax R'000 | After tax R'000 |
| Headline earnings per share (cents) | | 46.37 | | 11.28 |
| Diluted headline earnings per share (cents) | | 46.32 | | 11.25 |
| **Reconciliation between earnings and headline earnings** | | | | |
| Basic earnings | 290 920 | 201 401 | 99 894 | 30 200 |
| **Adjusted for:** | | | | |
| Profit on sale of property, plant and equipment | (886) | (638) | (933) | (933) |
| Gain on bargain purchase | (6 638) | (6 638) | – | – |
| | 283 396 | 194 125 | 98 961 | 29 267 |

## 36. CASH GENERATED FROM/(UTILISED IN) OPERATIONS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Profit/(loss) before taxation | 291 533 | 99 894 | 44 479 | (63 498) |
| **Adjustments for:** | | | | |
| Depreciation of property, plant, equipment and prepayment | 184 719 | 75 308 | 352 | 122 |
| Amortisation of intangible assets | 11 046 | 7 825 | 271 | – |
| Scrapping of property, plant and equipment | 359 | – | – | – |
| Gain on bargain purchase | (6 638) | – | – | – |
| Foreign exchange | (7 860) | – | – | – |
| BEE discount | – | 82 280 | – | 82 280 |
| (Profit)/loss on sale of assets | (886) | (933) | – | – |
| Dividend income | – | – | (50 000) | – |
| Interest received – investment | (18 613) | (6 775) | (16 070) | (30 776) |
| Finance costs | 79 393 | 29 625 | 6 162 | 5 925 |
| Rehabilitation change in estimate expensed | 1 556 | – | – | – |
| Rehabilitation cost applied to the provision | (3 391) | (13 543) | – | – |
| Vendor liability change in estimate expensed | (7 261) | – | – | – |
| Share-based payment expense | 1 644 | 1 413 | 679 | 477 |
| Equity-accounted income | (7 912) | – | – | – |
| Investment return | (97) | (205) | – | – |
| | 517 592 | 274 889 | (14 127) | (5 470) |
| **Changes in working capital** | | | | |
| Inventories | (8 439) | 807 | – | – |
| Trade and other receivables | (150 297) | (62 659) | (6 075) | (17 848) |
| Trade and other payables | (77) | 40 478 | 26 099 | 13 085 |
| | 358 779 | 253 515 | 5 897 | (10 233) |

## 37. TAX PAID

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| Balance at beginning of year | (13 486) | (27 585) | 326 | 787 |
| Charge through profit or loss | (127 102) | (32 048) | – | (763) |
| Acquired through business combination | (13 700) | – | – | – |
| Balance at end of year | 39 478 | 13 486 | (316) | (326) |
| | (114 810) | (46 147) | 10 | (302) |

## 38. RELATED PARTIES

### Relationships

| | |
|---|---|
| Ultimate holding company | Wescoal Holdings Limited |
| Subsidiaries | Wescoal Mining Proprietary Limited |
| | Wescoal Trading Proprietary Limited |
| | Wescoal Exploration Proprietary Limited |
| | Wescoal Mineral Recoveries Proprietary Limited |
| | Blanford 006 Proprietary Limited |
| | Proudafrique Trading 147 Proprietary Limited |
| | JJP Res Gedeelte 2 Van Plaas Vlakvarkfontein 213 Proprietary Limited |
| | JJP Gedeelte 6 (Van Ged 2) Van Vlakvarkfontein 213 Proprietary Limited |
| | JJP Gedeelte 16 (Van Ged 2) Van Vlakvarkfontein 213 Proprietary Limited |
| | Keaton Energy Holdings Limited |
| | Keaton Mining Proprietary Limited |
| | Keaton Administration and Technical Services Proprietary Limited |
| | Leeuw Braakfontein Colliery Proprietary Limited |
| | Lebohlano Trading 46 Proprietary Limited |
| | Ausco Finance Proprietary Limited |
| | Ausco Service Proprietary Limited |
| | Neosho Trading 86 Proprietary Limited |
| | Aztolinx Proprietary Limited |
| Employee share incentive scheme | Wescoal Share Incentive Trust |
| Members of key management | Directors |
| Group executive committee | Key management personnel who have the authority and responsibility for planning, directing and controlling activities of the company and subsidiaries |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| **Related-party balances** | | | | |
| **Loan accounts – Owing (to)/by related parties** | | | | |
| Wescoal Trading Proprietary Limited | – | – | (242 090) | (93 424) |
| Wescoal Mining Proprietary Limited | – | – | 118 952 | 168 809 |
| Wescoal Mineral Recoveries Proprietary Limited | – | – | (612) | (816) |
| Blanford 006 Proprietary Limited | – | – | 33 547 | 31 672 |
| Wescoal Exploration Proprietary Limited | – | – | (548) | (1 337) |
| Proudafrique Trading 147 Proprietary Limited | – | – | (4 030) | (4 031) |
| | – | – | (94 781) | 100 873 |
| **Trade and other receivables** | | | | |
| Aztolinx Proprietary Limited – Trade receivable | 17 729 | – | – | – |
| Aztolinx Proprietary Limited – Other receivable | 20 687 | – | – | – |
| | 38 416 | – | – | – |
| **Other receivables** | | | | |
| Aztolinx Proprietary Limited | 29 235 | – | – | – |
| **Shares held by Trust** | | | | |
| Wescoal Share Trust | – | – | 10 189 | 12 504 |

## 38. RELATED PARTIES continued

### Relationships continued

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| **Related-party transactions** | | | | |
| **Interest received from related parties** | | | | |
| Wescoal Mining Proprietary Limited | – | – | – | (20 853) |
| Blanford 006 Proprietary Limited | – | – | (3 303) | (3 787) |
| | – | – | (3 303) | (24 640) |
| **Administration fees received from related parties** | | | | |
| Wescoal Trading Proprietary Limited | – | – | 16 952 | 15 432 |
| Wescoal Mining Proprietary Limited | – | – | 29 059 | 27 287 |
| Blanford 006 Proprietary Limited | – | – | 2 422 | 1 658 |
| Aztolinx Proprietary Limited | 12 530 | – | – | – |
| | 12 530 | – | 48 433 | 44 377 |
| **Dividend received from related parties** | | | | |
| Wescoal Mining Proprietary Limited | – | – | 50 000 | – |
| **Compensation to directors and prescribed officers** | | | | |
| Non-executive directors' fees | 2 849 | 2 968 | 2 849 | 2 968 |
| Remuneration | 24 822 | 27 390 | 10 766 | 10 930 |
| Retirement and medical contributions | 1 510 | 799 | 785 | 321 |
| Fringe benefits and bonus | 17 539 | 6 897 | 7 429 | 1 992 |
| | 46 720 | 38 054 | 21 829 | 16 211 |

## 39. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

### Executive directors

| | Remuneration R'000 | Medical and provident fund contributions R'000 | Annual bonus R'000 | Fringe and other benefits R'000 | Cash total R'000 | IFRS 2 share option expense R'000 |
|---|---|---|---|---|---|---|
| **31 March 2018** | | | | | | |
| W Sulaiman | 3 859 | 299 | 2 328 | 178 | 6 664 | 279 |
| IJ van der Walt* | 2 378 | 174 | 1 167 | 106 | 3 825 | 131 |
| T Tshithavhane | 3 138 | 235 | 1 746 | 119 | 5 238 | 257 |
| B Mazarura# | 1 391 | 77 | 1 746 | 39 | 3 253 | (87)[1] |
| | 10 766 | 785 | 6 987 | 442 | 18 980 | 580 |

[1] *Reversal, upon resignation, of pro rata share option expense previously recognised for unvested options.*

** Izak van der Walt was reappointed as a director of the holding company and CFO on 1 September 2017.*

*# Bothwell Mazarura resigned as director and CFO, effective 31 August 2017.*

## 39. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION continued

### Executive directors continued

| | Remuneration R'000 | Medical and provident fund contributions R'000 | Annual bonus R'000 | Fringe and other benefits R'000 | Cash total R'000 | IFRS 2 share option expense R'000 |
|---|---|---|---|---|---|---|
| 31 March 2017 | | | | | | |
| W Sulaiman | 3 683 | 120 | 1 100 | 215 | 5 118 | 241 |
| IJ van der Walt* | 2 368 | 65 | 320 | 102 | 2 855 | 10 |
| T Tshithavhane | 2 783 | 83 | – | 154 | 3 020 | 74 |
| B Mazarura# | 2 096 | 53 | – | 101 | 2 250 | 87 |
| | 10 930 | 321 | 1 420 | 572 | 13 243 | 412 |

** Izak van der Walt resigned as director of the holding company with effect from 19 September 2016; he remained a director of subsidiary companies.*

*# Bothwell Mazarura was appointed as CFO on 1 July 2016.*

### Share options in the company held by directors

| | Financial year granted | Option grant (strike price) cents | Balance held at 31 March 2018 '000 | Balance held at 31 March 2017 '000 |
|---|---|---|---|---|
| Directors | | | | |
| W Sulaiman | 2015 | 185 | 1 000 | 1 000 |
| | 2016 | 111 | 250 | 250 |
| | 2018 | 213 | 225 | – |
| IJ van der Walt | 2016 | 111 | 75 | 75 |
| | 2018 | 213 | 954 | – |
| T Tshithavhane | 2017 | 246 | 850 | 850 |
| | 2018 | 213 | 205 | – |
| B Mazarura* | 2017 | 246 | – | 1 000 |

** Bothwell Mazarura resigned as director and CFO, effective 31 August 2017.*

| Fees for services as directors | 2018 R'000 | 2017 R'000 |
|---|---|---|
| Non-executive directors | | |
| JG Pansegrouw | 445 | 485 |
| HLM Mathe | 423 | 574 |
| MR Ramaite | 539 | 468 |
| DMT van Gaalen | 841 | 867 |
| KM Maroga | 502 | 574 |
| C Maswanganyi | 43 | – |
| ET Mzimela | 56 | – |
| | 2 849 | 2 968 |

## 39. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION continued

### Prescribed officers

| | Remuneration R'000 | Medical and provident fund contributions R'000 | Annual bonus R'000 | Fringe and other benefits R'000 | Cash total R'000 | IFRS 2 share option expense R'000 |
|---|---|---|---|---|---|---|
| **31 March 2018** | | | | | | |
| HP Botes* | 3 620 | 48 | 2 596 | 24 | 6 288 | 181 |
| B Siko | 2 751 | 139 | 1 445 | 74 | 4 409 | 45 |
| E Strydom* | 184 | – | 1 059 | – | 1 243 | 3 |
| M Berry | 2 969 | 231 | 1 854 | 220 | 5 274 | 467 |
| V Dhanooklal | 1 652 | 123 | 994 | 71 | 2 840 | 36 |
| BM Hlophe | 1 734 | 130 | 1 044 | 66 | 2 974 | 36 |
| KN Mbekeni | 1 146 | 54 | 612 | 51 | 1 863 | 15 |
| | 14 056 | 725 | 9 604 | 506 | 24 891 | 783 |
| **31 March 2017** | | | | | | |
| HP Botes* | 4 738 | 115 | 2 264 | 242 | 7 359 | 256 |
| B Siko | 2 384 | 76 | 264 | 128 | 2 852 | 109 |
| E Strydom* | 2 006 | 65 | 264 | 107 | 2 442 | 27 |
| M Berry | 3 007 | 94 | 663 | 166 | 3 930 | 448 |
| V Dhanooklal | 1 582 | 47 | 298 | 91 | 2 018 | 10 |
| BM Hlophe | 1 652 | 49 | 221 | 95 | 2 017 | 10 |
| KN Mbekeni | 1 091 | 32 | 45 | 57 | 1 225 | – |
| | 16 460 | 478 | 4 019 | 886 | 21 843 | 860 |

** HP Botes resigned on 31 December 2017 and E Strydom on 31 March 2017.*

### Share options in the company held by prescribed officers

| | Financial year granted | Option grant (strike price) cents | Balance held at 31 March 2018 '000 | Balance held at 31 March 2017 '000 |
|---|---|---|---|---|
| HP Botes* | 2013 | 86 | 200 | 2 000 |
| | 2015 | 172 | 300 | 500 |
| E Strydom* | 2014 | 206 | – | 200 |
| M Berry | 2014 | 212 | 2 000 | 2 000 |
| | 2016 | 111 | 200 | 200 |
| | 2018 | 213 | 205 | – |
| B Siko | 2015 | 181 | 500 | 500 |
| | 2016 | 111 | – | 100 |
| V Dhanooklal | 2016 | 111 | 60 | 75 |
| | 2018 | 213 | 205 | – |
| BM Hlophe | 2016 | 111 | 75 | 75 |
| | 2018 | 213 | 205 | – |
| KN Mbekeni | 2018 | 213 | 115 | – |

** HP Botes resigned on 31 December 2017 and E Strydom on 31 March 2017.*

## 40. CONTINGENT LIABILITIES

The group had contingent liabilities at 31 March 2018 in respect of:

### Dispute

Subsequent to year-end various matters in terms of disputes with the group's joint venture with Aztolinx Proprietary Limited arose, which are being assessed by the group.

### Claims against the group

On 31 March 2016, the group received a statement of claim, which commenced the pleadings in the arbitration proceedings pertaining to a dispute of certain provisions of a coal transportation agreement concluded on 8 October 2014.

The group disclaimed the liability and the arbitration claim was dismissed with costs on 21 October 2016.

On 1 December 2016, the group received a notice of motion commencing review proceedings in the High Court, Gauteng Local Division, Johannesburg, to set the arbitration award aside. The company opposed the review proceedings and on 20 November 2017, the High Court dismissed the claimant's application with costs.

### Claims – recoupment of historical mining costs

In 2017, the group was in discussion with a mining contractor at Intibane mine regarding the recoupment of historical mining costs incurred in terms of the contract mining agreement. The mining contractor, on the other hand, was claiming additional revenue on the same contract. Possible settlement outcomes from the discussions were not expected to have a negative impact on the group at the time and no provision was made in the financial statements.

The group subsequently settled the matter in 2018 at no cost to the group and a recoupment where the contractor overbilled mining costs.

### Claims for the group

The group inherited the following claim against Megacube under the Keaton acquisition:

- As a result of Megacube's breaches of the contract mining agreement, Keaton Mining 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.

On 28 April 2016, the following arbitration award was made in favour of Keaton Mining regarding the merits of the dispute:

- 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 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; and
- Megacube is directed to pay Keaton Mining's costs; such costs include the employment of two counsel and the qualifying fees of expert witnesses.

Magacube then applied to the High Court, Gauteng Local Division, to have the arbitrators award set aside. On 24 April 2017, their application was dismissed with costs. Megacube then applied for leave to appeal the aforementioned decision, which was refused. Megacube then made application to the Supreme Court of Appeal for leave to appeal; however, on 2 February 2018, their application was dismissed with costs.

The contingent asset has not been recognised as a receivable at 31 March 2018 as the quantum of the disputes will only be dealt with in the coming months.

## 41. COMMITMENTS

### Capital commitments

The group and company had no significant capital expenditure contracted for at the end of the reporting period.

| | 2018 R'000 | 2017 R'000 |
|---|---|---|
| Mining properties | 282 | 14 308 |

For 2017, the above commitments included capital expenditure of R14 million relating to the completion of the D20 road construction (refer to note 5).

## 42. POST-FINANCIAL YEAR-END EVENTS

### Disposal of non-core assets

The group embarked on a process and commenced negotiations to dispose of non-core assets, including assets acquired as part of the Keaton acquisition. This is in line with the group's strategy of realising value for shareholders and building a scalable, sustainable business.

### Dividend declaration

The board of directors, in considering the group's financial position and strong annual performance, resolved to declare R35 million (7.78 cents per ordinary share) to shareholders as a final dividend for the year.

The directors are not aware of any matters or circumstances arising since the end of the financial year relevant to an assessment of the consolidated annual financial statements at 31 March 2018.

## 43. SEGMENT REPORTING

For management purposes, the group is organised into business units based on their products and activities and has four reportable operating segments:

- The Mining segment is involved in the exploration, beneficiation and mining of bituminous coal;
- The Trading segment buys and sells coal to inland customers;
- The property rental segment rents property to other segments within the group; and
- The investment holding segment is the holding company of the group and also acts as a central treasury function.

No operating segments have been aggregated to form the above reportable operating segments. The group exco is the group's chief decision-making body. Management has determined the operating segments based on the information received by group exco. Annual segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

All revenue is generated from customers in southern Africa and all operating assets are situated in South Africa. The Mining segment generates its revenue mainly from sales to parastatal and other institutions. The Trading segment generates its revenue from sales to a variety of customers that include private sector, government institutions, mining entities and various small and medium enterprises.

## 43. SEGMENT REPORTING continued

Segment results and reporting is presented below:

| | Mining R'000 | Trading R'000 | Property rental and other R'000 | Investment holding R'000 | Inter-segment eliminations R'000 | Consolidated R'000 |
|---|---|---|---|---|---|---|
| **31 March 2018** | | | | | | |
| **Revenue** | | | | | | |
| External customers | 2 308 956 | 1 217 554 | 547 | – | – | 3 527 057 |
| Intersegment | 99 956 | – | 81 907 | 114 503 | (296 366) | – |
| **Total revenue** | 2 408 912 | 1 217 554 | 82 454 | 114 503 | (296 366) | 3 527 057 |
| Cost of sales | (1 916 265) | (1 078 853) | – | – | 33 075 | (2 962 043) |
| **Gross profit/(loss)** | 492 647 | 138 701 | 82 454 | 114 503 | (263 291) | 565 014 |
| Other income/(expenses) | 6 917 | 2 663 | 22 476 | 695 | (8 543) | 24 208 |
| Operating expenses | (192 128) | (80 715) | (29 187) | (71 195) | 121 766 | (251 459) |
| Gain on bargain purchase | – | – | – | 6 638 | – | 6 638 |
| **Operating profit/(loss)** | 307 436 | 60 649 | 75 743 | 50 641 | (150 068) | 344 401 |
| Interest received | 4 763 | 363 | 1 532 | – | 11 955 | 18 613 |
| Interest paid | (96 372) | (10 899) | (19 778) | (6 162) | 53 818 | (79 393) |
| Share of net profit of joint venture accounted for using the equity method | 7 912 | – | – | – | – | 7 912 |
| **Profit/(loss) before income tax** | 223 739 | 50 113 | 57 497 | 44 479 | (84 295) | 291 533 |
| Depreciation and amortisation | (180 676) | (10 622) | (2 228) | (623) | – | (194 149) |
| Gain/(loss) on sale of assets | 257 | 1 883 | – | (1 254) | – | 886 |
| **Total assets** | 1 943 746 | 271 214 | 953 332 | 1 023 273 | (1 191 366) | 3 000 199 |
| **Total liabilities** | (1 874 014) | (214 256) | (149 481) | (300 546) | 585 272 | (1 953 025) |
| **31 March 2017** | | | | | | |
| **Revenue** | | | | | | |
| External customers | 1 023 401 | 1 094 265 | 354 | – | – | 2 118 020 |
| Intersegment | 90 444 | – | 5 235 | 75 153 | (170 832) | – |
| **Total revenue** | 1 113 845 | 1 094 265 | 5 589 | 75 153 | (170 832) | 2 118 020 |
| Cost of sales | (864 363) | (976 643) | – | – | 90 444 | (1 750 562) |
| **Gross profit** | 249 482 | 117 622 | 5 589 | 75 153 | (80 388) | 367 458 |
| Other income/(expenses) | 2 535 | 1 954 | (644) | – | – | 3 845 |
| Operating expenses | (72 985) | (89 599) | (2 861) | (50 446) | 49 612 | (166 279) |
| BEE discount | | | | (82 280) | – | (82 280) |
| **Operating profit/(loss)** | 179 032 | 29 977 | 2 084 | (57 573) | (30 776) | 122 744 |
| Interest received | 612 | 26 | 1 | – | 6 136 | 6 775 |
| Interest paid | (12 645) | (9 935) | (1 120) | (5 925) | – | (29 625) |
| **Profit/(loss) before income tax** | 166 999 | 20 068 | 965 | (63 498) | (24 640) | 99 894 |
| Depreciation and amortisation | (70 272) | (11 295) | (18) | (122) | – | (81 707) |
| Gain/(loss) on sale of assets | 39 | 1 538 | (644) | – | – | 933 |
| **Total assets** | 909 669 | 185 802 | 90 291 | 744 314 | (338 219) | 1 591 857 |
| **Total liabilities** | (689 316) | (165 340) | (80 406) | (219 330) | 247 167 | (907 225) |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# SHAREHOLDER INFORMATION

## SHAREHOLDERS' DIARY

| | |
|---|---|
| Financial year-end | 31 March |
| Preliminary annual results announcement | 26 June 2018 |
| Annual report posted | July 2018 |
| Annual general meeting | November 2018 |
| Interim results announcement | November 2018 |

# SHAREHOLDER ANALYSIS

| Shareholder spread | Number of shareholdings | % of total shareholdings | Number of shares | % of issued capital |
|---|---|---|---|---|
| 1 – 1 000 | 1 580 | 37.00 | 526 057 | 0.12 |
| 1 001 – 10 000 | 1 715 | 40.16 | 7 364 959 | 1.64 |
| 10 001 – 100 000 | 819 | 19.18 | 25 167 483 | 5.59 |
| 100 001 – 1 000 000 | 120 | 2.81 | 41 928 140 | 9.32 |
| Over 1 000 000 | 36 | 0.84 | 374 923 188 | 83.33 |
| **Total** | **4 270** | **100.00** | **449 909 827** | **100.00** |

| Distribution of shareholders | Number of shareholdings | % of total shareholdings | Number of shares | % of issued capital |
|---|---|---|---|---|
| Close corporations | 46 | 1.08 | 1 420 641 | 0.32 |
| Collective investment schemes | 7 | 0.16 | 18 065 018 | 4.02 |
| Control accounts | 1 | 0.02 | 9 | 0.00 |
| Custodians | 11 | 0.26 | 25 347 861 | 5.63 |
| Foundations and charitable funds | 9 | 0.21 | 701 600 | 0.16 |
| Hedge funds | 5 | 0.12 | 3 330 204 | 0.74 |
| Investment partnerships | 16 | 0.37 | 254 121 | 0.06 |
| Managed funds | 2 | 0.05 | 20 166 | 0.00 |
| Private companies | 63 | 1.48 | 252 740 583 | 56.18 |
| Public companies | 1 | 0.02 | 98 | 0.00 |
| Retail shareholders | 3 914 | 91.66 | 77 900 471 | 17.31 |
| Retirement benefit funds | 1 | 0.02 | 8 500 | 0.00 |
| Scrip lending | 3 | 0.07 | 16 101 013 | 3.58 |
| Share schemes | 1 | 0.02 | 10 189 000 | 2.26 |
| Stockbrokers and nominees | 13 | 0.30 | 6 889 493 | 1.53 |
| Treasury | 1 | 0.02 | 2 034 266 | 0.45 |
| Trusts | 172 | 4.03 | 34 906 749 | 7.76 |
| Unclaimed scrip | 4 | 0.09 | 34 | 0.00 |
| **Total** | **4 270** | **100.00** | **449 909 827** | **100.00** |

| Shareholder type | Number of shareholdings | % of total shareholdings | Number of shares | % of issued capital |
|---|---|---|---|---|
| **Non-public shareholders** | **8** | **0.19** | **230 098 269** | **51.14** |
| Directors and associates of the company and its subsidiaries* | 5 | 0.12 | 4 246 881 | 0.94 |
| Directors and associates (direct holding) | 3 | 0.07 | 1 396 238 | 0.31 |
| Directors and associates (indirect holding) | 2 | 0.05 | 2 850 643 | 0.63 |
| K2016316243 (SA) Proprietary Limited (Empowerment SPV)^ | 1 | 0.02 | 213 628 122 | 47.48 |
| Wescoal Share Incentive Trust | 1 | 0.02 | 10 189 000 | 2.26 |
| Treasury | 1 | 0.02 | 2 034 266 | 0.45 |
| **Public shareholders** | **4 262** | **99.81** | **219 811 558** | **48.86** |
| **Total** | **4 270** | **100.00** | **449 909 827** | **100.00** |

** Excludes shares held in the empowerment special purpose vehicle (133 663 698 shares).*
*^ Includes Indirect holding by directors (133 663 698 shares).*

| Beneficial shareholders with a holding greater than 3% of the issued shares | Number of shares | % of issued capital |
|---|---|---|
| K2016316243 (SA) Proprietary Limited | 213 628 122 | 47.48 |
| UBS (Custodian) | 23 545 923 | 5.23 |
| Peregrine Group | 21 935 108 | 4.88 |
| Rutendo Holdings Proprietary Limited | 20 180 642 | 4.49 |
| **Total** | **279 289 795** | **62.08** |

| | |
|---|---|
| **Total number of shareholdings** | **4 270** |
| **Total number of shares in issue** | **449 909 827** |

| Share price performance | |
|---|---|
| Opening price 3 April 2017 | R2.20 |
| Closing price 30 March 2018 | R1.67 |
| Closing high for period | R2.49 |
| Closing low for period | R1.60 |
| Number of shares in issue | 449 909 827 |
| Volume traded during period | 44 729 069 |
| Ratio of volume traded to shares issued (%) | 9.94 |
| Rand value traded during the period | R89 113 845.95 |
| Price/earnings ratio as at 30 March 2018 | 45.14 |
| Earnings yield as at 30 March 2018 | 2.22 |
| Dividend yield as at 30 March 2018 | 2.77 |
| Market capitalisation at 30 March 2018 | R751 349 411.09 |

# DEFINITIONS

| | |
|---|---|
| Atlantis | Atlantis Coal Estate CC |
| BEE | Black economic empowerment |
| Blanford | Blanford 006 Proprietary Limited |
| CEO | Chief executive officer |
| CFO | Chief financial officer |
| Chandler | Chandler Coal Proprietary Limited |
| CSI | Corporate social investment |
| CSR | Corporate social responsibility |
| DMR | Department of Mineral Resources |
| DoL | Department of Labour |
| DWS | Department of Water Affairs and Sanitation |
| EE | Employment equity |
| Elandspruit | Elandspruit Colliery |
| ESOP | Employee Share Option Plan |
| Exco | Executive committee |
| Express | Express Technology CC |
| GTIS | Gross tonnes in situ |
| HDSA | Historically disadvantaged South African |
| HPRI | High Point Risk Incident |
| IDC | Industrial Development Corporation (of South Africa) |
| Intibane | Intibane Colliery |
| IWUL | Integrated water use licence |
| IoD | Institute of Directors South Africa |
| JSE | Johannesburg Stock Exchange Limited |
| Keaton or Keaton Energy | Keaton Energy Holdings Limited |
| KEHL | Keaton Energy Holdings Limited |
| Khanyisa | Khanyisa Colliery |
| King IV | King Code and Report on Governance Principles for South Africa 2016 |
| LBC | Leeuw Braakfontein Colliery Proprietary Limited |
| LED | Local economic development |
| LOM | Life of mine |
| LTI | Lost time injury |
| LTIFR | Lost time injury frequency rate |
| Mineral Recoveries | Wescoal Mineral Recoveries Proprietary Limited |
| Moabsvelden | Moabsvelden Mine/Colliery |
| MoI | Memorandum of Incorporation |
| MTIS | Minable tonnes in situ |
| mtpa | Million tonnes per annum |
| NGO | Non-governmental organisation |
| NUM | National Union of Mineworkers |
| MPRDA | Mineral and Petroleum Resources Development Act |
| Proudafrique | Proudafrique Trading 147 Proprietary Limited |
| PwC | PricewaterhouseCoopers Inc. |
| Remco | Remuneration and nomination committee |
| ROM | Run of mine |
| SAMREC | South African Code for Reporting Results, Mineral Resources and Mineral Reserves |
| SENS | Securities Exchange News Service, the regulatory information dissemination platform for the JSE |
| SHE | Safety, health and environment |
| SHEQ | Safety, health, environment and quality |
| SLP | Social and labour plan |
| SPV | Special purpose vehicle |
| The board | The board of directors of Wescoal Holdings Limited |
| The group | Wescoal Holdings Limited and its subsidiaries and associates |
| The previous year | The year ended 31 March 2017 |
| Vanggatfontein | Vanggatfontein Colliery |
| Wescoal | Wescoal Holdings Limited |
| WUL | Water use licence |

## Financial definitions

| | |
|---|---|
| CID | Confidential invoice discounting |
| EBITDA | Earnings before interest, tax, depreciation and amortisation |
| ECL | Expected credit loss |
| EPS | Earnings per share |
| FVOCI | Fair value through other comprehensive income |
| FVTPL | Fair value through profit or loss |
| FY | Financial year |
| HEPS | Headline earnings per share |
| IASB | International Accounting Standards Board |
| IDF | Invoice discounting facility |
| IFRS | International Financial Reporting Standards |
| JIBAR | Johannesburg Interbank Agreed Rate |
| LIBOR | London Interbank Offered Rate |
| NOI | Net operating income |
| NPAT | Net profit after tax |
| Operational EBITDA | Earnings before interest, tax, depreciation and amortisation excluding profit on sale of assets |
| RCF | Revolving credit facility |
| ROCE | Return on capital employed |
| ROI | Return on investment |

# GENERAL INFORMATION

| | |
|---|---|
| Registration number | 2005/006913/06 |
| Country of incorporation and domicile | South Africa |
| JSE code | WSL |
| ISIN | ZAE000069639 |
| Nature of business and principal activities | The mining, processing, sale and distribution of thermal coal |
| Directors | MR Ramaite *(Chairman)*<br>JG Pansegrouw<br>DMT van Gaalen<br>KM Maroga<br>HLM Mathe<br>W Sulaiman<br>IJ van der Walt (Appointed 1 September 2017)<br>T Tshithavhane<br>B Mazarura (Resigned 31 August 2017)<br>C Maswanganyi (Appointed 17 November 2017)<br>ET Mzimela (Appointed 17 November 2017) |
| Registered office | First Floor, Building 10, Woodmead Business Park<br>142 Western Service Road, Woodmead<br>Sandton 2191, South Africa<br>Telephone: +27 (0)11 049 8611 |
| Postal address | PO Box 1962, Edenvale 1610 |
| Ultimate holding company | Wescoal Holdings Limited |
| Company secretary | V Dhanooklal |
| Bankers | Nedbank |
| Sponsor | Nedbank Corporate and Investment Banking<br>3rd floor Block F Nedbank, Rivonia Campus, 135 Rivonia Road<br>Sandton 2196, South Africa<br>PO Box 1144, Johannesburg 2000, South Africa |
| Auditors | PricewaterhouseCoopers Inc. Johannesburg<br>Registered Auditor<br>4 Lisbon Lane, Waterfall City, Jukskei view 2090, South Africa<br>Telephone: +27 (0)11 797 4000 |
| Transfer secretary | Computershare Investor Services Proprietary Limited<br>Rosebank Towers, 15 Biermann Avenue, Rosebank 2196, South Africa<br>PO Box 61051, Marshalltown 2107, South Africa<br>Telephone: +27 (0)11 370 7802 |
| Investor relations | Singular Systems IR<br>28 Fort Street, Birnam 2196, South Africa<br>Telephone: +27 (0)10 003 0700<br>Email: IR@singular.co.za |

WESCOAL

www.wescoal.com