BUFFALO COAL CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and twelve months ended December 31, 2016

(Presented in South African Rands)

Contents

BASIS OF PREPARATION

The following Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of Buffalo Coal Corp. and its subsidiaries ("we", "our", "us", "BC Corp", the "Company" or the "Group") for the three and twelve months ended December 31, 2016 and should be read in conjunction with the audited annual consolidated financial statements for the years ended December 31, 2016 and December 31, 2015. The financial statements and related notes have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain non-IFRS measures are discussed in this MD&A which are clearly disclosed as such. Additional information and press releases have been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and are available online under the Buffalo Coal Corp. profile at www.sedar.com.

This MD&A reports our activities through March 24, 2017 unless otherwise indicated. References to FY2016 and FY2015 mean the financial years ended December 31, 2016 and December 31, 2015, respectively. References to Q4 2016, Q3 2016, Q2 2016 and Q1 2016 mean the three months ended December 31, 2016, September 30, 2016, June 30, 2016 and March 31, 2016, respectively and references to Q4 2015, Q3 2015, Q2 2015 and Q1 2015 mean the three months ended December 31, 2015, September 30, 2015 , June 30, 2015 and March 31, 2015.

Unless otherwise noted all amounts are recorded in South African Rands ("R" or "Rands"). References to "C$" mean Canadian Dollars and to "US$" mean United States Dollars. Amounts stated in Canadian Dollars or US Dollars are translated at the date of transaction, unless otherwise stated. These other amounts stated in Canadian Dollars were translated at C$1:R10.2214 and amounts in US Dollars were translated at US$1:R13.7392.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking information under Canadian securities legislation. Forward-looking information includes, but is not limited to, information with respect to the Company's expected production from, and further potential of, the Company's properties; financial and operational planning and strategic goals; the Company's ability to raise additional funds; the timing and amount of advances under existing loan facilities; the future price of minerals, particularly coal and overall market conditions for resource issuers; the estimation of mineral reserves and mineral resources; conclusions of economic evaluations; the realization of mineral reserve estimates; the timing and amount of estimated future production; costs of production; capital expenditures; success of exploration activities; mining or processing issues; currency exchange rates; government regulation of mining operations; labour relations and future collective agreements; and environmental risks. In general, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking information is based on the opinions, estimates and assumptions of management as of the date such statements are made and the Company can give no assurance that such opinions, estimates and assumptions are correct. Estimates regarding the anticipated timing, amount and cost of exploration, development and production activities are based on assumptions underlying mineral reserve and mineral resource estimates and the realization of such estimates. Capital and operating cost estimates are based on extensive research of the Company, purchase orders placed by the Company to date, recent mining costs and other factors.

Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Such factors include: risks relating to the requirement for additional capital; production estimate risks; the price of coal; labour and employment risks; cost estimate risks; mineral legislation risks; title to mineral holdings risks; power supply risks; risks relating to the depletion of mineral reserves; litigation risks; South Africa country risks; infrastructure risks; environmental risks and other hazards; risks relating to dependence on key personnel; dependence on outside parties; exploration and development risks; risks relating to foreign mining tax regimes; insurance and uninsured risks; competition risks; the Company's securities may experience price volatility; risks relating to owning foreign assets; currency fluctuation risks; and the Company's directors and officers may have conflicts of interests. Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

OVERVIEW OF THE COMPANY

BC Corp is a coal mining and supply company operating in South Africa. The Company is listed on the TSX Venture Exchange ("TSXV") and the Alternative Exchange ("AltX") operated by the JSE. BC Corp trades under the symbol "BUF" on the TSXV and "BUC" on the AltX.

In July 2010, the Company acquired 100% of the shares in Buffalo Coal Dundee Proprietary Limited ("BC Dundee"), a South African company, with an interest in two operating coal mines in South Africa ("BC Dundee Properties"). The BC Dundee Properties comprise the Magdalena bituminous mine ("Magdalena") and the Aviemore anthracite mine ("Aviemore"). BC Dundee's Magdalena opencast operation reached the end of its life in March 2015 and the Group is now engaged only in underground coal mining. BC Dundee indirectly holds a 70% interest in the BC Dundee Properties through its 70% interest in Zinoju Coal Proprietary Limited ("Zinoju"), which holds all of the mineral rights with respect to the BC Dundee Properties. The remaining 30% interest in Zinoju is held by South African Black Economic Empowerment ("BEE") partners. BEE is a statutory initiative on behalf of the South African government, enacted to increase access by historically disadvantaged South Africans ("HDSA") to the South African economy by increasing HDSA ownership in South African enterprises.

Magdalena is located twenty two kilometers from the town of Dundee in KwaZulu-Natal, South Africa and encompasses approximately 1 844 hectares. As reported in the Company's National Instrument 43-101 report, Magdalena, which until March 2015 consisted of the Magdalena underground mine and the Magdalena opencast operation, had an estimated mineable coal resource, all in the measured resource category, of an estimated 50.29 million tonnes of *in situ* coal with an estimated volume of 33.52 million cubic meters as at October 1, 2012. From October 1, 2012 to December 31, 2015, 3.56 million tonnes of run of mine ("ROM") was extracted from Magdalena at an average extraction rate of 50%.

The Magdalena underground mine has an estimated total production capacity of 87 000 tonnes of bituminous coal per month. One of the Company's two processing plants is located on the Magdalena property.

Aviemore is located eight kilometers from the town of Dundee in KwaZulu-Natal and encompasses approximately 5 592 hectares. As reported in the Company's National Instrument 43-101 report, Aviemore had a mineable measured and indicated coal resource of 35.35 million tonnes of *in situ* coal with an estimated volume of 23.57 million cubic meters as at October 1, 2012. From October 1, 2012 to December 31, 2015, 1.45 million tonnes of ROM was extracted from Aviemore at an average extraction rate of 55%.

The Aviemore underground mine has an estimated production capacity of 41 000 tonnes of anthracite per month.

BC Dundee's head office is located in the town of Dundee and is known as the Coalfields site. The second processing plant is located at Coalfields, as is the Company's rail siding.

BC CORP RESOURCES

Below is an extract of the National Instrument 43-101 Resource statement dated October 1, 2012 as disseminated on SEDAR. Mr. RA Karstel (B.Eng (Mining and Civil), M.Sc.Eng (Mineral Economics), Pr.Eng, SAIMM), a qualified person as defined in National Instrument 43-101 has read and approved the scientific and technical information included in this table. The table sets forth the mineable coal resource estimate for the BC Dundee Properties.

Mineable Coal Resources for the BC Dundee Properties as at October 1, 2012														
Area	Seam	Resource Seam Width	Resource Classification	Seam Width	Volume	RD	Tonnage	Ash	Fixed Carbon	CV	Inherent moisture	Sulphur	Volatiles	Yield
		Cut-Off m	Category	m	Mm³	t/m³	Mt	%	%	MJ/Kg	%	%	%	%
Magdalena														
Magdalena Underground	Gus	0.8	Measured	1.90	8.48	1.5	12.72	14.89	65.79	29.46	1.23	1.62	17.76	77.52
	Alfred	0.8	Measured	2.10	10.72	1.5	16.08	15.62	66.21	30.16	1.39	1.48	16.76	79.02
	Combined	0.8	Measured	4.10	13.98	1.5	20.97	14.77	67.84	29.25	1.39	1.55	15.27	82.98
	Total Measured				**33.18**	**1.5**	**49.77**	**15.08**	**66.79**	**29.60**	**1.35**	**1.55**	**16.39**	**80.31**
Magdalena Opencast	Gus	0.8	Measured	1.90	0.10	1.5	0.16	22.35	54.28	25.63	1.83	1.68	21.52	89.01
	Alfred	0.8	Measured	2.00	0.24	1.5	0.36	26.58	51.97	23.53	1.93	1.90	19.51	95.04
	Total Measured				**0.34**	**1.5**	**0.52**	**25.30**	**52.67**	**24.16**	**1.90**	**1.83**	**20.12**	**93.22**
Hilltop	Gus	0.8	Inferred	1.50	1.97	1.5	2.96	21.24	-	22.11	0.98	1.84	13.19	100
	Alfred	0.8	Inferred	1.60	5.64	1.5	8.46	21.07	-	22.24	0.94	1.86	13.47	100
	Total Inferred				**7.61**	**1.5**	**11.42**	**21.11**	-	**22.21**	**0.95**	**1.85**	**13.40**	100
Aviemore														
Aviemore Mine	Gus	0.8	Measured	1.80	0.82	1.5	1.23	13.34	77.76	30.15	1.84	2.01	7.19	74.31
	Total Measured				**0.82**	**1.5**	**1.23**	**13.34**	**77.76**	**30.15**	**1.84**	**2.01**	**7.19**	**74.31**
Leeuw Mining & Exploration	Gus	0.8	Indicated	1.72	9.72	1.5	14.58	13.55	77.53	29.00	2.21	1.80	6.73	63.51
Zinoju Coal	Gus	0.8	Indicated	1.72	13.03	1.5	19.54	13.46	75.51	28.93	2.59	1.60	8.28	57.00
	Total Indicated				**22.75**	1.5	**34.12**	**13.50**	**76.37**	**28.96**	**2.43**	**1.69**	**7.62**	**59.78**
	Total Measured & Indicated				**23.57**	**1.5**	**35.35**	**13.49**	**76.42**	**29.00**	**2.41**	**1.70**	**7.60**	**60.29**
Leeuw Mining & Exploration	Gus	0.8	Inferred	1.72	1.09	1.5	1.63	14.97	74.78	27.29	1.77	1.41	8.50	55.98
Zinoju Coal	Gus	0.8	Inferred	1.72	8.99	1.5	13.48	14.14	74.72	28.85	2.49	1.71	8.64	59.60
	Total Inferred				**10.08**	**1.5**	**15.11**	**14.23**	**74.75**	**28.69**	**2.41**	**1.68**	**8.63**	**59.23**

Notes:

1. Coal Resources are inclusive of Coal Reserves.
2. Coal Resources are inclusive of tonnes mined since the effective date of October 1, 2012.
3. Tonnes and qualities have been rounded and this may result in minor adding discrepancies.
4. The coal qualities are stated for the ash content ("Ash"), fixed carbon, calorific value ("CV"), inherent moisture, sulphur content ("Sulphur"), volatile matter ("Volatiles") and yield.
5. The coal qualities assays were determined on an air-dried moisture basis.
6. A 15% geological loss has been applied to the Gross *in situ* tonnes.
7. The declared tabulation of coal resources prepared by Minxcon has been prepared in accordance with the NI 43-101 reporting code and is compliant with this Code.
8. A cut-off seam thickness of 0.8 m has been applied to the Gross *in situ* Coal Resource statements.
9. The Coal Resources for the Magdalena and Aviemore areas are calculated on 1.7 t/m^3 float density coal quality values and the Hilltop Coal Resources are calculated on raw coal quality values.
10. The coal density for all areas is 1.5 t/m^3.
11. The Hilltop data received from the Client did not include fixed carbon values.
12. The mining right to Leeuw Mining & Exploration properties has been transferred to Zinoju.

BC CORP RESOURCES (continued)

From October 1, 2012 (the date of the National Instrument 43-101 Resource statement) to December 31, 2016, the following ROM has been extracted ([1]):

- Magdalena opencast (t): 689 377
- Magdalena underground (t): 3 932 284
- Aviemore (t): 1 949 874

The information above was read and approved by Mr. RA Karstel (B.Eng (Mining and Civil), M.Sc.Eng (Mineral Economics), Pr.Eng, SAIMM), a qualified person as defined in National Instrument 43-101.

[1] At an average extraction factor of 50% for Magdalena and 55% for Aviemore mine.

CONSOLIDATED OPERATIONAL AND FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2016 AND THE QUARTER ENDED DECEMBER 31, 2016

The operational highlights and summarized financial results for the year ended December 31, 2016 and the quarter ended December 31, 2016 are presented below as compared to the financial year ended December 31, 2015, the quarter ended December 31, 2015 and the quarter ended September 30, 2016. The Group achieved ROM production of 1.6Mt, saleable production (excluding calcine) of 893 kilotonne "kt" and sales of 920kt for the year ended December 31, 2016.

	12 months ended		3 months ended		
Operational results	**December 31, 2016**	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**	**September 30, 2016**
ROM (t)	**1 557 824**	1 732 205	**363 650**	328 527	401 440
- Aviemore (t)	**496 343**	472 994	**130 264**	108 065	121 342
- Magdalena (t)	**1 061 481**	1 259 211	**233 386**	220 462	280 098
Saleable production (excluding calcine) (t)	**892 591**	972 065	**214 876**	181 307	228 373
- Anthracite (t)	**338 620**	299 126	**86 034**	69 603	80 987
- Bituminous (t)	**553 971**	672 939	**128 842**	111 704	147 386
Yield on plant feed (excluding calcine) (%)	**56.8%**	55.4%	**57.2%**	52.5%	57.4%
- Anthracite (%)	**66.9%**	63.7%	**65.5%**	65.0%	67.0%
- Bituminous (%)	**52.3%**	52.4%	**52.8%**	46.9%	53.2%
Sales (t)	**920 222**	949 369	**246 762**	184 215	247 200
- Anthracite (t)	**331 007**	227 274	**105 584**	59 441	86 131
- Bituminous (t)	**561 805**	688 569	**130 856**	117 800	152 206
- Calcine (t)	**27 411**	33 526	**10 323**	6 974	8 863
Saleable inventory tonnes	**57 846**	70 241	**57 846**	70 241	80 038
- Anthracite (t)	**50 801**	65 863	**50 801**	65 863	69 413
- Bituminous (t)	**4 802**	2 297	**4 802**	2 297	9 708
- Calcine (t)	**2 243**	2 081	**2 243**	2 081	917

CONSOLIDATED OPERATIONAL AND FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2016 AND THE QUARTER ENDED DECEMBER 31, 2016 (continued)

	12 months ended		3 months ended		
Financial results	**December 31, 2016**	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**	**September 30, 2016**
Revenue (R'millions)	**660.6**	631.0	**183.9**	127.2	178.1
Net Revenue (R'millions) (*)	**641.2**	576.5	**181.0**	114.2	172.3
Operating profit/(loss) (R'millions)	**33.8**	(457.0)	**1.3**	(149.8)	(11.8)
Adjusted EBITDA (R'millions) (*)	**11.5**	(71.0)	**(0.6)**	(14.3)	13.6
Average selling price per tonne sold (R)	**718**	665	**745**	691	721
Cash cost of sales per tonne (R)	**636**	669	**668**	688	608
Cash generated from/(utilized in) operating activities (R'millions)	**32.0**	(63.9)	**28.3**	(51.4)	27.5
Cash utilized in investing activities (R'millions)	**(26.4)**	(55.5)	**(9.5)**	(12.4)	(4.9)
Cash (utilized in)/generated from financing activities (R'millions)	**(12.3)**	127.6	**(23.0)**	69.0	(14.3)
CAD:ZAR (average)	**11.10**	9.97	**10.43**	10.65	10.80
USD:ZAR (average)	**14.71**	12.76	**13.93**	14.23	14.09

(*) See *Non-IFRS Performance Measures* section of this MD&A.

OVERVIEW OF THE PERIOD AND OUTLOOK FOR THE GROUP

Markets

The Group supplies high energy bituminous coal and anthracite to both the export and domestic markets.

The Group has continued to ultilise an export allocation of 204 500 tonnes through the Quattro scheme at Richards Bay Coal Terminal (RBCT) during 2016. The Department of Mineral Resources has however advised that the allocation has been withdrawn for the future, meaning that from April 1, 2017, the company will have no direct access to the export capacity in RBCT, or the trains to reach the port.

No reduction in exports is however forecast, as contracts with customers have been restructured in such a way as to utilize rail capacity allocated to those customers irrespective the destination terminal.

Bituminous

The API4 coal index, based on an RB1 specification coal on a heat value of 6000 kcal/kg NAR shipped from RBCT, but also the benchmark for the pricing of all Steam Coal exports from South African terminals, rebounded in late 2016. The index peaked briefly at around US$100 before settling back into a range in the US$80's, where it now remains. This is a significant improvement on the first half of 2016 which saw the index in a range from under US$50 to high US$50's.

OVERVIEW OF THE PERIOD AND OUTLOOK FOR THE GROUP (continued)

Markets (continued)

Bituminous (continued)

Exchange rates have however been on a strengthening trend during 2016, having ended the year at US$1:R13.74, reducing the benefit of higher US$ pricing.

The API4 index remains in backwardation, reducing the desirability of fixing long term sales agreements.

Most group export bituminous sales are therefore now fixed in Rand for relatively short periods, guaranteeing cash flow in local currency.

Domestically, the bituminous market remains fairly stable in volume terms, with little variation predicted for 2017. In late 2016 however, generally tighter supply conditions became evident, putting upward pressure on pricing. This was particularly evident in the sized coal sector, where list prices on short term sales have risen substantially.

Anthracite

Anthracite's use as a source of carbon reductant in metallurgical processes means that the market, both domestically and for export, does not correlate well with movements in the steam coal markets. Settlements for anthracite supplies are therefore on an individually negotiated basis, with no real reference pricing available.

2016's anthracite demand started out very weak, but during the course of the year has improved overall, which has also been reflected in improved pricing. Domestic sized anthracite off-take remains depressed however, awaiting a recovery in the fortunes of several large smelting industries.

Demand for 2017 is buoyant, and the Group expects to place all planned production into the markets at better prices than were achieved in 2016. Demand for the Group's products will be further assisted by the closure of two competing Kwa-Zulu Natal mines.

The outlook for 2017 is therefore positive for both the bituminous and anthracite sectors of the business, with both demand and pricing healthier than during 2016.

Operational

Restructuring of Business

Over the past three years, like many of its peers, BC Dundee has been operating under extremely difficult financial circumstances. The reduction in export coal prices over this period and the weakening of the domestic and export anthracite markets, has necessitated various restructuring initiatives by BC Corp in all aspects of its business, to support and turn-around the current financial position of the Group.

One of the key changes resulting from the restructuring was the introduction of a mining contractor, STA Coal Mining Company Proprietary Limited ("STA") at Magdalena, as set out in further detail below. This contract de-risks BC Corp from a cost perspective should targets not be achieved. BC Dundee continues to mine Aviemore, which performs consistently well in terms of volumes and costs, and also operates the Company's two processing plants and siding.

OVERVIEW OF THE PERIOD AND OUTLOOK FOR THE GROUP (continued)

Operational (continued)

Restructuring of Business (continued)

With the restructured cost base, and subject to no further decline in prices, bituminous products are expected to generate cash margins in 2017. Anthracite products continue to generate good profits, subject to marketing opportunities.

Other restructuring initiatives have included:

- The closure of the Canadian head office in 2014, including the termination of service contracts with a large number of senior management staff in both Canada and Johannesburg resulting in net savings of approximately R15.0 million per annum.

- Raising a total of US$31.0 million (approximately R481.8 million) from Resource Capital Fund V L.P. ("RCF"), to support the Group's working capital requirements and to implement a capital expenditure program to replace old and unreliable equipment. US$29.0 million (approximately R450.7 million) was raised by way of a convertible loan between September 2013 and July 2015, and US$2.0 million (approximately R31.1 million) was raised by way of a private placement to RCF in December 2015 ("the Private Placement") (refer below for further information on the raising of additional capital from RCF).

- Restructuring of BC Dundee's debt facilities with Investec Bank Limited ("Investec") to provide cash relief to BC Dundee in terms of servicing and covenant reporting requirements until December 2015. In December 2015, Investec agreed to increase the Group's working capital facility, to restructure the capital repayment due in December 2015 and to waive the breach of the covenants as at December 31, 2015 (refer below for further information on the additional financing raised from Investec).

- Ongoing cost cutting initiatives and improved cost controls implemented in all aspects of the Group over the past three years as markets have deteriorated in terms of both demand (primarily anthracite) and pricing (primarily bituminous).

- A retrenchment process undertaken in terms of Section 189A of the South African Labour Relations Act, No 66 of 1995 ("LRA") which was concluded in March 2015 resulting in an approximate 25% reduction in the labour complement at a total cost of R13.7 million ("March 2015 Retrenchment Process").

- In May 2015, BC Dundee initiated a second Section 189A retrenchment process focusing on Magdalena. In terms of this Section 189A process, the majority of employees at Magdalena were retrenched in October 2015 at a total cost of R3.8 million, with the majority subsequently being re-employed by STA as described below ("October 2015 Retrenchment Process").

Refer to *Legal proceedings* below with regards to the application brought by the Association of Mineworkers and Construction Union ("AMCU") against BC Dundee and Zinoju in relation to the March 2015 Retrenchment Process.

OVERVIEW OF THE PERIOD AND OUTLOOK FOR THE GROUP (continued)

Operational (continued)

Agreement with STA to perform contract mining services at Magdalena

Zinoju and BC Dundee have signed a contract mining agreement with STA, effective October 31, 2015, for STA to mine four sections at Magdalena on a fixed Rand per tonne contract, for an initial term of three years, with the option for a further two year extension. As a result of this agreement, STA has employed the majority of the employees who were retrenched by BC Dundee in terms of the October 2015 Retrenchment Process, resulting in minimal staff becoming redundant.

BC Dundee and Zinoju have also entered into an agreement to sell two continuous miners to STA. The selling price has been partially settled by STA by way of offset against amounts due to STA in terms of the previous agreement between the parties, and the balance has been settled by way of a reduction in the contract mining fee during 2016.

Zinoju, BC Dundee and STA have further entered into an agreement with BC Corp, in terms of which the Company is entitled, at its election, to settle an agreed portion of STA's contract mining fees through the issuance of common shares of the Company ("Common Shares") to STA (the "Equity Portion). The Equity Portion is calculated monthly based on production levels at Magdalena, with the Common Shares priced at the higher of the 20-day volume weighted average price ("VWAP") per Common Share, and any minimum pricing restriction applicable to the stock exchanges on which BC Corp is listed. The Common Shares are issued to STA at the end of each calendar quarter, subject to regulatory approvals. The parties have agreed that the percentage of Common Shares held by STA will not exceed 9.9% of BC Corp's outstanding shares at any point in time. As of the date of this MD&A, STA owns 19 451 241 Common Shares representing approximately 4.9% of the currently issued and outstanding Common Shares.

STA has appointed a nominee to act as a non-executive director on the board of directors of BC Dundee.

RCF Loan Facilities

The Company has raised an aggregate US$29.0 million convertible loan from RCF. The original convertible loan facility of US$6.0 million ("RCF Original Convertible Loan") and the bridge loan facility of US$4.0 million ("RCF Bridge Loan") were entered into in September 2013 and February 2014 respectively, and on July 3, 2014, BC Corp closed the final tranche of US$15.0 million resulting in an aggregate US$25.0 million convertible loan facility ("RCF US$25 million Loan") ("First Amended RCF Agreement").

On March 27, 2015, BC Corp entered into a second amended and restated convertible loan agreement with RCF ("Second Amended RCF Agreement") and secured an additional US$4.0 million loan facility which was advanced as a bridge loan ("2015 Bridge Loan"). On June 19, 2015, upon the Company receiving shareholder approval at the annual and special meeting of shareholders, the 2015 Bridge Loan rolled over into the RCF US$25 million Loan, under the same terms and conditions except for the amendments to the interest rate and conversion price on the full US$29.0 million facility ("RCF Convertible Loan") as set out below.

OVERVIEW OF THE PERIOD AND OUTLOOK FOR THE GROUP (continued)

RCF Loan Facilities (continued)

The 2015 Bridge Loan bore interest at a rate of 15% per annum, payable on the maturity date which was the earlier of the date on which the shareholder approval was received or June 30, 2015. No establishment fees were incurred on the 2015 Bridge Loan. Upon receipt of the shareholder approval, interest became payable in Common Shares at a price per share equal to the 20-day VWAP as at the date the payment was due. In addition, the interest rate on the RCF Convertible Loan was increased to 15% per annum and the conversion price was decreased to C$0.0469, a 25% discount to the 5-day VWAP as at January 30, 2015.

On December 2, 2015, BC Corp entered into a third amended and restated convertible loan agreement with RCF ("Third Amended RCF Agreement"), whereby RCF has agreed to convert an aggregate of US$20.0 million of the RCF Convertible Loan into Common Shares over a two-year period at the conversion price of C$0.0469 per Common Share ("RCF Conversion"), subject to a minimum conversion of US$10.0 million in the first year. An initial amount of US$2.0 million was converted on December 3, 2015 on the closing of the transactions with RCF and Investec as described herein ("RCF First Tranche Conversion") resulting in 56 963 752 Common Shares being issued to RCF.

The balance of the RCF Convertible Loan remains in place on existing terms, other than the interest being settled quarterly not monthly, and in respect of certain amendments to the interest provisions as detailed below:

- Prior to the date of completion of the RCF Conversion, interest will be settled through the issuance of Common Shares, priced at the 20-day VWAP. Following the date of completion of the RCF Conversion, interest will be payable in cash subject to BC Dundee having paid Investec its scheduled principal repayment for the prior quarter. If Investec's principal repayment has not been made, RCF's interest will accrue until such time as Investec has been paid, subject to RCF's election for interest to be settled through the issuance of Common Shares.
- The percentage interest rate is determined as follows:
  - If the 20-day VWAP is greater than C$0.05 per Common Share then the interest rate is 15% per annum;
  - If the 20-day VWAP is less than or equal to C$0.0313 per Common Share then the interest rate is 24% per annum; and
  - If the 20-day VWAP is greater than C$0.0313 but less than C$0.05 per Common Share then the interest rate is calculated as 0.0075/20-day VWAP.

In terms of the Third Amended RCF Agreement, RCF has also released all security held in respect of the RCF Convertible Loan, including the guarantee from BC Dundee.

In addition to the above, BC Corp also entered into a subscription agreement with RCF on December 2, 2015, whereby RCF subscribed for an additional US$2.0 million (approximately R28.7 million) in equity by way of the Private Placement. Pursuant to the Private Placement, RCF acquired 72 272 480 Common Shares at a price of C$0.0367 per Common Share.

Effective September 30, 2016, the Company entered into an amended convertible loan agreement with RCF (the "2016 Amendment"), the terms of which were substantially agreed upon on September 30, 2016. In terms of the 2016 Amendment, RCF agreed to an interest holiday beginning July 1, 2016, with a reduction in the interest rate to 1.29% during the interest holiday period.

OVERVIEW OF THE PERIOD AND OUTLOOK FOR THE GROUP (continued)

RCF Loan Facilities (continued)

As of December 31, 2016, the Company was fully drawn on the US$27.0 million (R371.0 million) RCF Convertible Loan, after the RCF First Tranche Conversion. As of December 31, 2015, the Company had drawn US$27.0 million (R419.6 million).

Investec funding

On December 2, 2015, BC Corp closed a second amended and restated term loan and revolving credit facility with Investec ("Second Amended Investec Agreement"), whereby Investec agreed to extend BC Dundee's working capital facility from R30.0 million to R80.0 million, comprising two tranches of R25.0 million each. The conditions to the first tranche, which included the conclusion of the RCF funding arrangements as set out above, were fulfilled on signing of the Second Amended Investec Agreement, and R25.0 million was drawn by BC Dundee from the facility in December 2015. The second tranche remained subject to the Company demonstrating its plan to sell the majority of its anthracite stockpile, which has built up as a result of depressed markets both domestically and globally. The condition was fulfilled and R25.0 million drawn by BC Dundee in March 2016.

On December 18, 2015, BC Dundee entered into a third amendment to the Investec loan agreement ("Third Amendment"), in terms of which the repayment schedule for the term loan facility was replaced with a new schedule with principal repayments commencing on March 31, 2016.

Due to continued cash constraints, Investec was approached during the first quarter of 2016 for a deferral of the term loan facility repayment due on March 31, 2016. On March 31, 2016, BC Dundee entered into a fourth amendment to the Investec term loan and revolving credit agreement ("Fourth Amendment") in terms of which the repayment schedule for the term loan facility was replaced with a new schedule with principal repayments commencing on June 30, 2016.

In addition, surplus cash at each quarter-end in excess of R30.0 million will be used to reduce the R80.0 million working capital facility back to R30.0 million and a clause was included restricting outflows of funds from BC Dundee to BC Corp between April 1, 2016 and June 30, 2016, unless prior written consent was obtained from Investec. To date, no cash has been swept to reduce the working capital facility.

Investec was again approached for a deferral of the term loan facility repayment due on June 30, 2016. On June 30, 2016, BC Dundee entered into a fifth amendment to the term loan and revolving credit agreement ("Fifth Amendment") in terms of which the repayment schedule for the term loan facility was replaced with a new schedule with principal repayments commencing on September 30, 2016. Investec extended the restriction on the outflows of funds from BC Dundee to BC Corp to September 30, 2016, unless prior written consent was obtained from Investec.

On each of September 30, 2016 and December 31, 2016 the company made the term loan facility repayments of R7.5 million.

OVERVIEW OF THE PERIOD AND OUTLOOK FOR THE GROUP (continued)

Investec funding (continued)

BC Dundee was required to meet specified debt covenants at each quarter end and was in breach of certain of these covenants at these dates. Such breach constitutes an event of default under the debt agreement whereby Investec is entitled to request early payment of the outstanding debt. However, when it became apparent that the covenants were to be breached, Investec was approached and waived the breach of the covenants as at March 31, 2016 and June 30, 2016. With respect to the periods ending September 30, 2016 and December 31, 2016, the breached undertakings and resultant event of default continued. On November 22, 2016, Investec provided a forbearance letter stating that it does not intend to exercise its rights to request early payment of the outstanding debt; however, it has reserved its right to review this decision periodically, with no obligation to keep the Company advised in this regard.

Due to Investec being entitled to request early payment of the outstanding debt, as a result of the breach in covenants referred to preceding, management has determined that the total Investec debt of R161.3 million be classified as current borrowings (refer to *Subsequent events* below).

Legal proceedings

On March 20, 2015, the Association of Mineworkers and Construction Union ("AMCU") brought an application against BC Dundee and Zinoju in the Labour Court of South Africa pertaining to the retrenchment process undertaken in terms of Section 189A of the South Africa Labour Relations Act ("LRA") which was concluded in March 2015. The matter was heard by the Labour Court on April 14, 2015, and on April 24, 2015, the Labour Court dismissed the application brought by AMCU with costs. AMCU appealed the judgment and the appeal was heard by the Labour Appeal Court on November 4, 2015. On May 11, 2016, the Labour Appeal Court dismissed AMCU's appeal with no order as to costs. This matter is now closed.

On April 20, 2015, the trustees of the Avemore Trust brought an application in the High Court of South Africa against, among others, the South African Minister of Mineral Resources ("the Minister"), BC Dundee and Zinoju in respect of Mining Right 174 ("MR174"). In terms of the application, the trustees of the Avemore Trust challenged the decision by the Minister, subsequent to an internal appeal process concluded during September 2014, to grant a converted mining right to BC Dundee and to grant consent for the cession of the converted mining right to Zinoju. There have been various settlement offers between the parties, but should settlement not be reached, BC Dundee and Zinoju intend to oppose the application. The Company's external legal team, including senior counsel have advised of a defendable case in terms of Avemore Trust's approach to the matter. The legal process on this matter is currently ongoing.

OVERVIEW OF THE PERIOD AND OUTLOOK FOR THE GROUP (continued)

Legal proceedings (continued)

On August 27, 2015, notice was received from the Minister that Mining Right 301 ("MR301") had been withdrawn together with the approval by the Regional Manager of the Environmental Management Plan in respect of MR301 (the "Ministerial Decision"). The reasons given by the Minister for the Ministerial Decision are procedural issues in respect of the award process, in relation to an objection received from Avemore Trust in October 2013 against the awarding of the right. On September 15, 2015, an urgent court order was granted, pending final determination, for the Ministerial Decision to be of no force and effect, to interdict the Minister from awarding MR301 to any other party and for the Company to continue to mine in terms of MR301. A review application was instituted by the Company in October 2015 to obtain final relief in the form of an order setting aside the Ministerial Decision. On March 23, 2016, Avemore Trust filed a counter application for the Ministerial Decision to be remitted for consideration by the Minister. The Company's external legal team, including senior counsel have indicated a strong likelihood of the review application being successful. The legal process on this matter is currently ongoing.

TSXV Delisting Review

In January 2016, the Company was notified by the Compliance and Disclosure Department of the TSXV that it has been placed on notice for transfer to the NEX Board of the TSXV ("NEX") for failure to meet the public float continued listing requirements of the TSXV. On July 13, 2016, the Company received notice from the TSXV that it had met the continued listing requirements of the exchange and that the TSXV had withdrawn the notice of transfer to the NEX.

Changes in directors and officers

On July 4, 2016, the Company announced the resignation of Mr. John Wallington as director of the Company, effective July 3, 2016.

On July 26, 2016, the Company announced the resignation of Mr. Malcolm Campbell as Chief Executive Officer and Ms. Sarah Williams as Chief Financial Officer and Corporate Secretary of the Company.

On October 13, 2016, the Company announced the appointment of Mr. Rowan Karstel as Interim Chief Executive Officer and Mr. Graham du Preez as Interim Chief Financial Officer and Corporate Secretary of the Company.

STRATEGY AND FUTURE PLANS FOR THE DECEMBER 2017 FINANCIAL YEAR

The Group's long term vision is to build a high quality bituminous and metallurgical coal mining and supply company. Future production growth is set to be twofold, firstly through expansion and optimization of the existing BC Dundee operations and secondly through acquisition in South Africa.

The Group will continue to pursue attractive expansion opportunities where it is believed that such opportunities will be synergistic and value enhancing to the existing business, while not removing the focus on the existing Dundee operations.

The Group is looking at restructuring its current debt facilities and the option of equity participation to improve the sustainability of the operations.

The Company's key strategic goals for the year ending December 31, 2017 are summarized below:

STRATEGY AND FUTURE PLANS FOR THE DECEMBER 2017 FINANCIAL YEAR (continued)

General

- Continued focus on cost containment at both an operational and corporate level, and a return to profitability and consistent positive cash generation.
- Focus on achieving production targets through forward planning and improvement of operational efficiencies.
- Explore opportunities to increase revenue by sourcing new market opportunities for both anthracite and bituminous products.
- Increase rail and port allocation to further gain exposure to seaborne bituminous and anthracite export markets, where feasible and profitable.
- Increase the awareness of safety to reduce the number of lost time injuries ("LTI").
- Potential restructuring of the Investec facilities (refer to *Subsequent events* below).
- Focus on obtaining additional funding in the form of equity and/or debt.

Magdalena

- Working to improve production and productivity at Magdalena together with STA.
- High focus on reducing contamination of coal mined in the four underground sections.
- Buy-in of coal to increase plant utilization and ultimately sales and profitability.
- Complete development through a major dyke to establish access to reserve blocks essential for the ongoing operation of the mine.

Aviemore

- Do Feasibility study to invest in a new adit at the mine in order to create more economical and efficient access for the life of mine of Aviemore.
- Progress the exploration program and feasibility study for the expansion of Aviemore to a 1Mt per year producer, subject to market conditions.

Wash plants

- Improve wash plant recovery rates from current levels by improving efficiencies of the wash plants and reducing contamination at source, particularly in respect of Magdalena.
- Investigate product upgrade potential.
- Consider tollwashing opportunities for other mining operators in the area.

Expansion opportunities

- An internal scoping study for the expansion of Aviemore has been completed, the results of which appear favourable and management recommends the study to proceed to the next stage, subject to market conditions.
- The Company is exploring various opportunities to secure additional opencast reserves in the northern KwaZulu-Natal region.
- The Company is exploring opportunities to buy in coal at appropriate qualities and pricing to increase volumes.
- The Company will also continue to explore the potential for acquisition of further high quality bituminous and metallurgical coal projects (both greenfield and producing) in South Africa.

STRATEGY AND FUTURE PLANS FOR THE DECEMBER 2017 FINANCIAL YEAR (continued)

The ability of the Company to increase production levels has not been the subject of a feasibility study and there is no certainty that any expansion proposals will be economically feasible.

OPERATIONAL RESULTS

The operational results are for the twelve months ended December 31, 2016 compared to the twelve months ended December 31, 2015.

ROM Production

Total ROM production for the year ended December 31, 2016 was 1.6Mt compared to 1.7Mt produced in the period ended December 31, 2015, down by 10.1%.

ROM production from Magdalena operations for the year ended December 31, 2016 was 1 061kt, compared to 1 259kt produced in the period ended December 31, 2015, down by 15.7%. ROM production for the year ended December 31, 2016 comprised 1 061kt from the underground operations as compared to 1 185kt from the underground operations and 74kt from the opencast, in the period ended December 31, 2015. The decrease in tonnes is as a result of difficult mining conditions and pitroom constraints encountered during FY 2016.

ROM production from Aviemore for the year ended December 31, 2016 was 496kt compared to 473kt produced in the period ended December 31, 2015, up by 4.9%. Aviemore continues to perform in line with historic and budgeted performance levels.

Saleable Production

Saleable coal production for the year ended December 31, 2016 was 893kt (excluding calcine) compared to 972kt in the period ended December 31, 2015, down by 8.1%. This is in line with a decrease in ROM production and partially offset by an improvement in the yields.

Saleable calcine product was 27kt for the year ended December 31, 2016 compared to 31kt in the period ended December 31, 2015, a 11.6% decrease.

The total calculated yield from plant feed was 56.8% for the year ended December 31, 2016, compared to 55.4% for the period ended December 31, 2015. The increase in the yield is due to an improved yield achieved on anthracite.

Sales

Total sales of bituminous coal and anthracite products for the year ended December 31, 2016 were 920kt compared to 949kt sold in the period ended December 31, 2015, a decrease of 3.1%.

Bituminous sales for the year ended December 31, 2016 were 562kt, of which 53.9% were export sales and 46.1% were domestic sales. This compares to 689kt sold in the period ended December 31, 2015 of which 63.4% were export sales and 36.6% were domestic sales, a decrease of 18.4% in line with a decrease in saleable production.

OPERATIONAL RESULTS (continued)

Sales (continued)

Anthracite sales (including calcine) for the year ended December 31, 2016 were 358kt, of which 78.0% were export sales and 22.0% were domestic sales. This compares to 261kt sold in the period ended December 31, 2015 of which 64.1% were export sales and 35.9% were domestic sales, up by 39.4%.

The increase in anthracite sales is mainly as a result of the conclusion of a bituminous/anthracite blend as well as sized anthracite contracts with an export customer.

Logistics

Coal is normally transported by rail and truck to domestic customers, while export coal is transported to RBCT and the Navitrade Terminal by rail. The Company utilizes the RBCT and Navitrade Terminals through contracts structured with customers with export allocations at the terminals.

Health and Safety

The Company runs an integrated Safety, Health and Environment ("SHE") management system, established using the OHSAS18001 and ISO14001 frameworks as well as minimum standards, and fully supports the co-existence of safety, occupational health and the environment within which the Company operates, in order to ensure compliance and achieve zero harm. The Company values the contribution of a safe and healthy workforce to its overall productivity and is continually striving towards an incident and injury free workplace. The Company undertakes training and development initiatives and related ventures on a regular basis in order to improve individual outlook on safety, health and the environment. The Company currently employs 571 employees, and has 513 contractors on site.

Safety

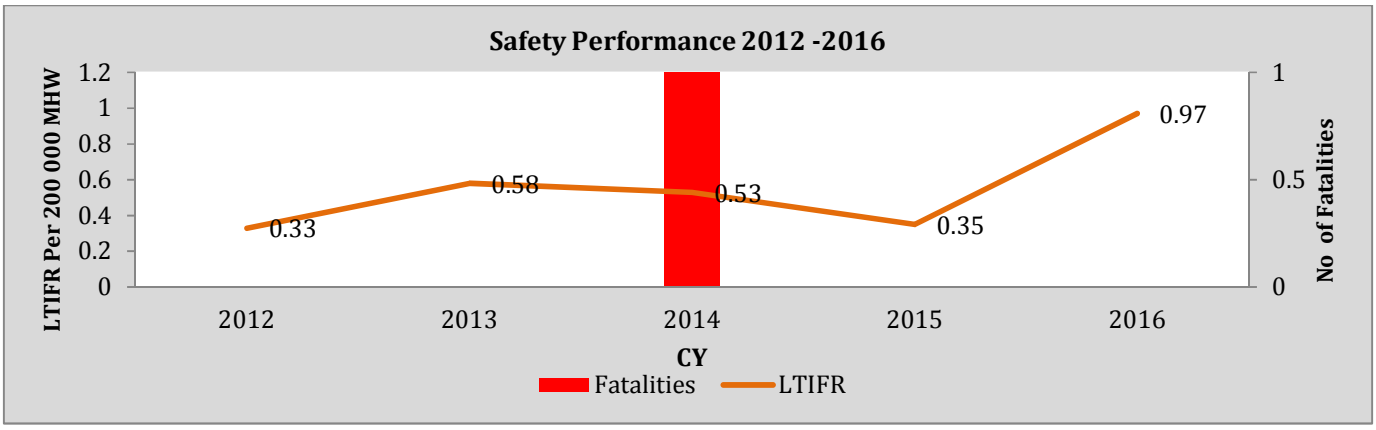
The Group has achieved more than six thousand fatality free production shifts at Magdalena and the Coalfields wash plant. Aviemore had one fatal incident during September 2014.

BC Dundee completed the year ended December 31, 2016 with ten LTIs, of which seven occurred at Magdalena and three at Aviemore. This compares to four LTIs during the period ended December 31, 2015, which represents a significant deterioration in the safety performance. It should be noted however that during Q4 2016, there was a significant improvement in safety performance due to keys safety drivers being implemented. The Coalfields wash plant continues to maintain a high standard of safety with no LTIs for the period.

OPERATIONAL RESULTS (continued)

Health and Safety (continued)

Safety (continued)



Occupational Health

The health and wellness of BC Corp employees plays a pivotal role in the Company's safety performance as well as productivity. The main aim of the Company and policy commitment is to ensure that industry milestones for occupational health are achieved and that the Company continues to strive towards improving the health of its employees as well as interested and affected parties.

The Company has established a medical surveillance link between exposure and medical examinations by running an integrated SHE system. The pre-employment periodical as well as exit medical surveillance is linked to the occupational health programs for noise, airborne pollutants and thermal stress, which are directly linked to minimum standards of fitness to work. Other occupational hygiene factors are duly considered.

The Company operates its own occupational health facilities, which are staffed with highly qualified and experienced professionals who render a high level service to direct as well as indirect clients, whilst ensuring legal compliance as well as compliance with in-house standards. On average, compliance is above 85% on ventilation, occupational hygiene and occupational medicine systems.

Environmental Management

The Company endeavors to conduct its business in a manner that demonstrates its understanding of the fact that the environment is borrowed from future generations and as such must be conserved. The Company aims to leave the environment in a better state than it was prior to the start of operations. Compliance with legal and other requirements, environmental management plans and requirements on water use licenses as well as managing all environmental aspects and impacts is one of the key principles of the Company. The Company has its own in-house environmental management department focusing on the elements of ISO 14001 and ensuring continual improvement.

OPERATIONAL RESULTS (continued)

Minerals Royalty

All operations at BC Dundee are subject to South African law, including the Mineral and Petroleum Resources Royalty Act, 28 of 2008 ("Royalty Act"). In terms of the Royalty Act, all companies extracting minerals in South Africa are required to pay royalties at a rate of between 0.5% and 7% based on gross sales, less allowable deductions, depending on the refined condition of the mineral resources.

Coal is classified as an unrefined mineral and the percentage royalty payable is therefore calculated according to the following formula:

% royalty payable = 0.5 + [Earnings before interest and tax/(Gross sales x 9)] x 100

During the year ended December 31, 2016 royalties of R5.8 million (year ended December 31, 2015: R6.4 million) was paid in terms of the Royalty Act.

Social Development

A key component of the Company's strategy involves social development and the enrichment of the local community, which is carried out through the Company's social and labour plans.

The development of people, both employees and local community members, is a fundamental principle in the business strategy. The Company provides opportunities and resources for employees to be fully developed in job disciplines that form part of the occupational structures of the Company.

The Company's human resource development includes:

- Portable skills training for both employees and the community.
- An Adult Education and Training ("AET") project which aims to improve the literacy rate of employees and members of the community. AET learners are offered the opportunity to become functionally literate and numerate.
- A Mathematics, Science and Accounting project which offers tutoring to Grade 12 learners in the mining community. The Company recruits competent educators through the Department of Education to offer tuition. Through this intervention, Grade 12 results have improved.
- An internship program for unemployed graduates.
- A bursary program in mining related fields. The Bursars are given the opportunity to do vacation work, to gain experience and do in-service training to meet the graduation requirements.
- An engineering and mining learnership program.

The Company's local economic development projects include:

- Advancement of Small, Medium and Micro-sized Enterprises ("SMMEs") within the local community including the development of a sewing project and various agricultural projects such as poultry farming.
- The construction of a crèche near the Magdalena mine.
- The renovation of a primary school in the district.

FINANCIAL RESULTS

Net Revenue

The Group restructured several of its offtake contracts during Q1 2016 from a free on board shipping ("FOB") basis to short-term Rand denominated free carrier ("FCA") contracts, resulting in revenue not being directly comparable year on year. The Group has therefore compared net revenue after railage, port handling and wharfage costs, which has been defined under the Non-IFRS Performance Measures section of this Interim MD&A. Net revenues earned during the year ended December 31, 2016 were R641.2 million compared to R576.5 million earned during the year ended December 31, 2015, an increase of 11.2%. During the year ended December 31, 2016, the Group's sales tonnes were 920kt compared to sales of 949kt for the period ended December 31, 2015.

Net bituminous revenue for the year ended December 31, 2016 was R375.8 million, of which R180.1 million was domestic (259kt) and R195.7 million was export (303kt), compared to R416.8 million for the year ended December 31, 2015, of which R170.4 million was domestic (252kt) and R246.4 million was export (437kt), a decrease of 9.8%.

Net anthracite revenue (including calcine) for the year ended December 31, 2016 was R265.4 million, of which R80.7 million was domestic (79kt) and R184.7 million was export (279kt), compared to R159.3 million for the year ended December 31, 2015, of which R95.0 million was domestic (94kt) and R64.3 million was export (167kt), an increase of 66.3%.

Average selling prices for the year ended December 31, 2016 were R718 per tonne compared to an average selling price of R665 per tonne for the period ended December 31, 2015.

During the year ended December 31, 2016 the overall selling price per tonne improved due to the negotiations of new contracts with the Group's domestic customers as well as significant export customers.

Cost of Sales

Cost of sales for the year ended December 31, 2016 was R641.8 million (cash cost of sales of R636 per tonne sold) compared to R711.4 million (cash cost of sales of R669 per tonne sold) for the period ended December 31, 2015, a decrease of 9.8% year on year. The Group has succeeded in reducing fixed costs as a result of the restructuring initiatives and continues to be cost conscious in ensuring expenditure is kept to a minimum in order to ensure the sustainability of the Group. Mining contractor fees increased by R86.9 million due to the introduction of STA as a mining contractor, offset by a decrease in salaries and wages by R38.5 million due to the restructurings implemented during the prior year. Railage, port handling and wharfage costs decreased by R35.1 million, which was due to the restructuring of several offtake contracts from a FOB to FCA basis.

Cost of sales includes mining and processing costs, salaries and wages, depreciation and amortization, transportation, railage, port handling and wharfage costs.

General and administration expenses

The Company recorded general and administration expenses of R62.0 million (R67 per tonne sold) during the year ended December 31, 2016 compared to R68.7 million (R72 per tonne sold) during the period ended December 31, 2015, a 9.7% decrease year on year.

FINANCIAL RESULTS (continued)

General and administration expenses (continued)

The expenses include general and administration expenses relating to BC Dundee's head office at Coalfields and the Company's corporate office in Johannesburg including Canadian expenses. The reduction in general and administration expenses is due to the restructurings implemented during the prior year and cost control measures in place at both an operational and at a corporate level.

Other (Expense)/Income - net

During the year ended December 31, 2016, the Group recorded net other income amounting to R77.0 million compared to net other expenses of R307.9 million for the period ended December 31, 2015. Other income and expense comprises loss on sale of assets, foreign exchange gains/losses, discounts received, insurance proceeds, loss on extinguishment of debt, commissions paid and fair value adjustments on financial assets and conversion option liabilities.

The Company recorded a fair value adjustment gain of R92.5 million for the year ended December 31, 2016 in relation to the valuation of the conversion option liability (RCF Convertible Loan), the warrant liability (Investec warrants) and financial assets compared to a gain of R100.6 million for the period ended December 31, 2015.

A net foreign currency exchange gain of R36.7 million was recorded for the year ended December 31, 2016 compared to a R66.9 million loss for the period ended December 31, 2015, mainly as a result of the strengthening of the Rand in relation to the US Dollar with regards to the RCF Convertible Loan and US Dollar denominated revenues.

In accordance with IAS 39, Financial Instruments: Recognition and Measurement, the terms of the 2016 Amendment to the RCF loan were considered substantially different to the RCF convertible loan agreement, as amended on December 2, 2015. Consequently, IAS 39 required an extinguishment of the RCF convertible loan and the recognition of a new financial liability. A resultant loss on extinguishment of debt of R50.6 million was recognized during the period, which had no cash flow impact on the Group.

Finance Costs/Income-net

The Group recorded net interest and accretion expense of R71.1 million during the year ended December 31, 2016 compared to a net interest expense of R89.5 million for the period ended December 31, 2015, a decrease of 20.5%.

The decrease is due to the new terms subsequent to the 2016 Amendment of the RCF loan. RCF agreed to an interest holiday beginning July 1, 2016, with a reduction in the interest rate to 1.29% during the interest holiday period. The interest rate during the comparative period was 15%.

Taxation

The Company recorded income and other tax expense of R8.2 million during the year ended December 31, 2016 compared to an expense of R15.4 million during the period ended December 31, 2015. Included in the expense for the year ended December 31, 2016 is a write-off of Zinoju's deferred tax asset of R4.7 million.

FINANCIAL RESULTS (continued)

Taxation (continued)

Although management believes that the Group will continue as a sustainable business into the foreseeable future and believes that the Company is a going concern, the fact that taxable losses have been incurred over the past few

years and in consideration of the need to complete multiple restructurings and refinancings, management can no longer corroborate that it is probable that Zinoju will have sufficient taxable profit in the foreseeable future to utilize the assessed loss, which resulted in the write-off of the net deferred tax asset.

The tax amount in the year ended December 31, 2016 includes R0.2 million compared to R2.0 million in the period ended December 31, 2015 that was credited to income tax expense/benefit and is related to the income tax effect of the depreciation and amortization of the fair value adjustments made with respect to the purchase price allocation on the BC Dundee acquisition. Income tax is payable at a rate of 28% on taxable income earned in South Africa.

Net loss for the period

The net loss for the year ended December 31, 2016 was R45.5 million, compared to a net loss of R561.8 million for the period ended December 31, 2015. Contributing to the net loss position for the current year were significant non-cash items including a loss on extinguishment of debt of R50.6 million. The improvement to the prior financial year is contributable to foreign exchange gains of R36.7 million, net gains on the fair value adjustment on financial assets, conversion option liability and warrant liability of R93.4 million, no impairment of assets being recognized for the year ended December 31, 2016 (year ended December 31, 2015: R137.9 million) and a decrease in interest expense relating to the RCF Convertible Loan which is due to the reduction in interest rate.

SUMMARY OF QUARTERLY FINANCIAL RESULTS

	CYQ4 2016	CYQ3 2016	CYQ2 2016	CYQ1 2016	CYQ4 2015	CYQ3 2015	CYQ2 2015	CYQ1 2015
Revenue (R'000)	**183 887**	178 148	156 059	142 488	127 208	159 871	179 220	164 700
Cost of sales (excl depreciation and amortization) (R'000)	**164 787**	150 278	147 079	122 664	185 039	169 280	176 066	163 119
Depreciation and amortization (R'000)	**7 431**	16 412	16 840	16 343	17 934	20 106	19 781	18 331
Operating profit/(loss) (R'000)	**1 254**	(11 771)	33 634	10 638	(149 809)	(193 392)	(81 950)	(31 867)
Adjusted EBITDA (R'000)*	**(576)**	13 530	(6 090)	4 639	(14 297)	(24 202)	(12 508)	(19 942)
Net loss for the period (R'000)	**(19 395)**	(25 536)	11 481	(12 094)	(177 679)	(261 817)	(88 356)	(33 972)
Net loss per share - Basic and Diluted	**(0.05)**	(0.07)	0.03	(0.04)	(1.00)	(2.48)	(1.16)	(0.55)
Cash generated from/(utilized in) operating activities (R'000)	**28 294**	27 501	(6 035)	(17 742)	(51 398)	1 988	(16 622)	2 150
Total ROM production (t)	**363 650**	401 440	415 655	377 079	328 527	408 570	522 266	472 842
Total sales tonnes (t)	**246 762**	247 200	228 508	197 752	184 215	243 131	276 842	245 058
Average selling price per tonne sold (R)	**745**	721	683	721	691	658	647	672
Cash cost of sales per tonne (R)	**668**	608	644	620	688	696	636	666
Total assets (R'000)	**504 248**	523 727	514 994	550 256	558 289	574 058	803 068	817 236
Long-term borrowings (R'000)	**368 194**	374 302	524 905	578 222	569 813	443 732	426 505	347 678

(*) See *Non-IFRS Performance Measures* section of this MD&A.

SUMMARY OF ANNUAL INFORMATION

	December 31, 2016	December 31, 2015	December 31, 2014
Revenue (R'000)	**660 582**	630 999	593 841
Cost of sales (excl depreciation and amortization) (R'000)	**584 808**	635 286	562 679
Depreciation and amortization (R'000)	**57 026**	76 151	75 315
Operating profit/(loss) (R'000)	**33 755**	(457 018)	(126 694)
Adjusted EBITDA (R'000)*	**11 503**	(70 952)	(23 445)
Net loss for the period (R'000)	**(45 544)**	(561 825)	(108 441)
Net loss per share - Basic and Diluted	**(0.14)**	(5.31)	(2.11)
Cash generated from/(utilized in) operating activities (R'000)	**32 018**	(63 882)	(24 648)
Total ROM production (t)	**1 557 824**	1 732 205	1 234 126
Total sales tonnes (t) (excluding calcine)	**892 812**	915 843	844 510
Average selling price per tonne sold (R)	**718**	665	703
Cash cost of sales per tonne (R)	**636**	669	666
Total Assets (R'000)	**504 248**	558 289	770 027
Long-term borrowings (R'000)	**368 194**	569 813	327 497

(*) See *Non-IFRS Performance Measures* section of this MD&A.

FINANCIAL CONDITION REVIEW

A summary of the statements of financial position is shown below:

	December 31, 2016 R'000	December 31, 2015 R'000
Property, plant and equipment and intangible assets	**311 731**	340 650
Other long-term receivables	**45 666**	41 517
Cash and cash equivalents	**13 754**	20 365
Trade and other receivables	**84 773**	75 582
Other short-term receivables	**1 902**	1 749
Inventories	**35 222**	42 226
Restricted cash	**11 200**	11 200
Non-current assets held for sale	**-**	25 000
Total assets	**504 248**	558 289
Trade and other payables	**158 262**	161 401
Total borrowings	**161 361**	171 395
RCF loan facilities	**368 194**	424 132
Other liabilities	**38 134**	17 656
Total liabilities	**725 951**	774 584
Total equity	**(221 702)**	(216 295)

Assets

Total assets were R504.2 million at December 31, 2016 compared to R558.3 million at December 31, 2015, a 9.7% decrease.

The most significant movement related to the sale of mining equipment which was previously disclosed as noncurrent assets held for sale. During the prior year, the Company entered in an agreement to sell two continuous miners to STA, which were subsequently reclassified as non-current assets held for sale, of which one was sold in the prior financial year and the second one in Q1 2016.

Liabilities

Total liabilities were R726.0 million at December 31, 2016 compared to R774.6 million at December 31, 2015, a 6.3% decrease.

The most significant movement related to the decrease in the RCF convertible loan, which was mainly as a result of a gain of R91.9 million recognized on the revaluation of the conversion option liability for the period ended December 31, 2016, which decreased the conversion option liability. Borrowings decreased by R12.3 million repayments on the Investec working capital and term loan facilities.

FINANCIAL CONDITION REVIEW (continued)

Loans and Borrowings

At December 31, 2016, the Group had outstanding debt with Investec of R178.5 million and US$27.2 million (R372.3 million) (including accrued interest) outstanding on the RCF convertible loan. The Investec debt consists of R75.0 million outstanding on the term loan facility, R45.5 million on the bullet facility and R58.0 million outstanding on the working capital facility. The working capital facility had R22.0 million available for drawdown at year-end, with the release of this money being subject to Investec's approval.

The repayment schedule for the Investec loan facilities, the RCF Convertible Loan and trade and other payables, as of December 31, 2016, excluding the effect of the fair value of the conversion liability and warrant liability, is as follows:

	Not later than 1 year	Between 1 and 5 years	Greater than 5 years
At December 31, 2016			
Borrowings [1]	**178 541 211**	**-**	**-**
RCF loan facilities [2]	**-**	**370 958 400**	**-**
Trade and other payables [3]	**158 262 414**	**-**	**-**
At December 31, 2015			
Borrowings	25 714 284	164 977 422	-
RCF loan facilities	-	419 631 300	-
Trade and other payables	161 400 972	-	-

[1] Borrowings include only the capital amounts outstanding.

[2] The RCF Convertible Loan includes only the capital amount outstanding as of December 31, 2016. Interest is assumed to be settled in Common Shares (refer to *Overview of the Period and Outlook for the Group* above) and has therefore been excluded.

[3] Trade and other payables exclude non-financial liabilities.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital deficit of R192.7 million as at December 31, 2016 compared to a working capital deficit of R47.2 million at December 31, 2015 (see *Non-IFRS Performance Measures*). Working capital has weakened due to an increase in current borrowings as the total Investec debt has been classified as current borrowings (refer to *Overview of the Period and Outlook for the Group* above).

LIQUIDITY AND CAPITAL RESOURCES (continued)

The condensed consolidated statements of cash flows are summarized below:

	12 months ended December 31, 2016 R'000	12 months ended December 31, 2015 R'000
Net cash generated from/(utilized in) operating activities	**32 018**	(63 882)
Net cash utilized in investing activities	**(26 376)**	(55 451)
Net cash (used in)/generated from financing activities	**(12 254)**	127 578
Change in cash and cash equivalents	**(6 612)**	8 245

Operating activities

Cash generated in operating activities during the twelve months ended December 31, 2016 was R32.0 million compared to R63.9 million utilized during the twelve months ended December 31, 2015.

The net loss for the year ended December 31, 2016 was R45.5 million compared to a net loss of R561.8 million for the period ended December 31, 2015 as discussed under the *Operational results* section of this MD&A. Non-cash items included in the net loss for the period were: depreciation and amortization of R57.0 million; net gains on the fair value adjustment on financial assets, conversion option liability and warrant liability of R93.4 million; loss on extinguishment of debt of R50.6 million; loss on disposal of property, plant and equipment of R4.0 million and net unrealized foreign exchange gains of R36.7 million of which the material items were discussed under the *Financial Results* section of this MD&A.

The Group's net working capital increased by R25.7 million for the year ended December 31, 2016, in comparison to a R13.6 million increase for the financial period ended December 31, 2015.

The net change in working capital reported on the cash flow statement identifies the changes in trade and other receivables, inventory and trade and other liabilities that occurred during the period. An increase in a liability (or a decrease in an asset) is a source of funds; while a decrease in a liability (or an increase in an asset) is a use of funds.

Investing activities

Investing activities utilized R26.4 million in cash during the year ended December 31, 2016 compared to cash utilized of R55.5 million during the year ended December 31, 2015.

During the year ended December 31, 2016, the Group spent R21.1 million on property, plant and equipment relating to sustaining capital compared to expenditure of R56.0 million for the period ended December 31, 2015 relating to sustaining capital and the purchase of additional equipment financed by RCF under the RCF convertible loan agreement.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Financing activities

Financing activities utilized R12.3 million during the year ended December 31, 2016 and generated R127.6 million during the year ended December 31, 2015.

During the year ended December 31, 2016, the Group drew down the second tranche of R25.0 million from the Investec working capital facility (refer to *Overview of the Period and Outlook for the Group* above), which was used for working capital purposes, but also repaid R22.3 million of the working capital facility and R15.0 million of the term loan. During the comparative period, the Group received R74.4 million from RCF drawn down under the RCF US$25 million Loan and 2015 Bridge Loan, which was used to purchase additional equipment, for working capital purposes and to implement the restructurings at BC Dundee. Also, Investec agreed to extend BC Dundee's working capital facility from R30.0 million to R80.0 million, of which the first tranche of R25.0 million was drawn by BC Dundee from the facility in December 2015. During the prior year the company also received R28.7 million from the Private Placement.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

During the year, the Company entered into the following transactions in the ordinary course of business with related parties:

	December 31, 2016	December 31, 2015
Payments for services rendered		
RCF [1]	**909 173**	3 408 092
Total	**909 173**	3 408 092

The following balances were outstanding at the end of the reporting year:

	December 31, 2016	December 31, 2015
Related party payables		
RCF [1]	**2 342 508**	9 284 251
Total	**2 342 508**	9 284 251

These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

[1] RCF is a related party to the Company as a result of owning a controlling investment in the Company and having a representative, Mr. David Thomas on the Board of Directors of the Company. As set out in the Third Amended RCF Agreement, RCF has invoiced the Company for costs incurred relating to the loan facilities, which are disclosed above. In addition to these costs, the Company settled interest on the RCF Convertible Loan in Common Shares during the year ended December 31, 2016, which amounted to R29.2 million as compared to R51.6 million for the period ended December 31, 2015.

RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

In accordance with IAS 24 - *Related-Party Disclosures*, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and other key members of management personnel (officers) during the period were as follows:

	December 31, 2016	December 31, 2015
Short-term benefits	**15 902 633**	16 861 296
Share-based payments	**176 514**	799 149
Total	**16 079 147**	17 660 445

Amounts owing to directors and other members of key management personnel were R1.2 million as of December 31, 2016 (December 31, 2015: R0.2 million).

OTHER

There are no significant other items as at December 31, 2016.

COMMITMENTS AND CONTINGENCIES

Change in Control Provision

A contract in place require that payment of approximately R3.1 million be made to a director upon the occurrence of a change in control, other than a change of control attributable to RCF. As no triggering event has taken place, no provision has been recognized as of December 31, 2016.

STA Contract Mining Agreement

In terms of the STA Contract Mining Agreement, STA is mining four sections at Magdalena underground mine at a fixed contract mining fee per tonne, effective October 31, 2015. The STA Contract Mining Agreement has a three year term, and the option for a further two year extension if agreed to by all parties.

The STA Contract Mining agreement can be terminated on 60 days notice for which period the Company will be liable for payment for the tonnes mined at the fixed rate per tonne.

Capital Commitments

Capital expenditures contracted for at the statement of financial position date but not recognized in the consolidated financial statements are as follows:

COMMITMENTS AND CONTINGENCIES (continued)

Capital Commitments (continued)

	December 31, 2016	December 31, 2015
Property, plant and equipment	2 919 134	1 754 679

In terms of Regulation 8.10 of the Mine Health and Safety Act, 29 of 1996 Regulations, the Company is required to take reasonably practicable measures to ensure that pedestrians are prevented from being injured as a result of collisions between trackless mobile machines and pedestrians, by way of the installation of proximity devices on specified machines. The Company is currently investigating its options in this regard. The Company has proposed the phase in of such devices over a five year period.

Environmental Contingency

The Company's mining and exploration activities are subject to various laws and regulations governing the environment and mine operations. These laws and regulations are continually changing and generally becoming more restrictive.

The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to continue to comply with such laws and regulations.

South African Revenue Service ("SARS") Correspondence

During Q2 2016, BC Dundee received a letter of demand from SARS with regards to an investigation conducted by them on diesel refunds claimed by BC Dundee under the South African Customs and Excise Act, 91 of 1964. As per the notification, the SARS Commissioner has disallowed diesel refunds in the amount of R13.8 million (including interest) for the period December 2012 to February 2016. The Company applied to SARS to suspend payment, however this request was denied. SARS has requested payment in three equal instalments of R4.9 million between March 2017 and May 2017. The Company requested SARS to enter into more favorable instalment terms and is awaiting feedback from SARS. The Company has disputed the disallowance of diesel refunds and believes it has a defendable case.

During Q3 2016, Zinoju received correspondence from SARS after conducting an audit of the 2012 to 2014 tax returns, disallowing an expense claimed in the 2012 tax return. The total exposure is approximately R3.0 million plus penalties of R1.5 million and interest. The Company raised an objection to SARS disputing the penalties and interest levied, however the objection was disallowed. The Company is currently drafting an appeal to the SARS Commissioner to defend its case.

COMMITMENTS AND CONTINGENCIES (continued)

Asset retirement obligation

Effective November 20, 2015, regulations governing financial provisions for asset retirement obligations was transitioned from the Mineral and Petroleum Resources Development Act ("MPRDA") to the National Environmental Management Act ("NEMA"). There is currently substantial uncertainty regarding the revised requirements for financial provisions pursuant to NEMA. Management is currently seeking clarification of the revised requirements in order to determine the expected impact of the change, which may result in a significant increase to the asset retirement obligation. One of the key changes in the requirements is that closure cost assessment now has to be based on a "Sudden Closure" assessment and third party rates whereas pursuant to the MPRDA, it was based on the end of mine life and prescribed rates. Uncertainty exists around the transitional arrangements although the implementation date of the new Act is expected to be February 20, 2019.

SUBSEQUENT EVENTS

Issuance of Share Capital

Subsequent to December 31, 2016, the Company issued additional shares to STA in settlement of a portion of the contract mining fees for the period October 1, 2016 and December 31, 2016. An additional 4 286 908 Common Shares were issued at C$0.05.

Investec facility revised terms

The Magdalena mine current LOM has a main development panel, which is Panel 417. It is critical this panel be developed to allow the mine's sections with enough pit room. Based on drilling results in panel 417, a dyke of 22 meters thick, with a 13.5 meter down-throw was intersected. In terms of the life of mine planning for Magdalena, the mine must develop through this dyke in order to establish pit-room and access the LOM block towards South-West of the reserves. Funding was required for this development, and Investec was approached to make the undrawn R22.0 million Working Capital Facility available for this purpose.

Investec has agreed to release the funds, subject to agreement being reached on the following revised terms and conditions:

- The Panel 417 project implementation shall be reviewed and its completion verified by a Project Oversight Committee appointed by Investec.
- Investec agrees to not exercise its rights arising from events of default until July 15, 2017.
- Investec will review the terms and conditions of the facility after July 15, 2017, with a view to agreeing terms and conditions of an extension of the final maturity date for a period of no less than 2 years, subject to the project having been successfully completed to the Project Oversight Committee's satisfaction.
- Investec will release the R22.0 million as working capital for the purpose of ensuring the project is completed timeously.
- A Life of Mine Royalty ("LOMR") shall be payable to Investec on all bituminous coal sales with effect from July 1, 2017, calculated at a rate of 3.54% on all bituminous coal sold.

SUBSEQUENT EVENTS (continued)

Investec facility revised terms (continued)

- If all amounts owing under the facility are paid on or before June 30, 2018, the Company shall pay Investec a fee equal to the greater of the aggregate amount of the LOMR which was payable until the date of repayment, and R22.0 million, minus the aggregate amount of the LOMR which was paid to Investec up to that date. The LOMR shall be terminated if the facilities are fully repaid before June 30, 2018.

On February 22, 2017, the Company accepted and agreed to Investec's revised terms and conditions to the term loan and revolving credit facility and is currently negotiating a formal amendment to the loan agreement.

Other Matters

Except for the matters discussed above, no other matters which management believes are material to the financial affairs of the Company have occurred between the statement of financial position date and the date of approval of the financial statements.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements in conformity with IFRS requires the Group's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes thereto. Although these estimates are based on management's best knowledge of the amounts, events or actions, actual results may differ from those estimates and these differences could be material. The areas which require management to make significant judgments, estimates and assumptions in determining the carrying values and amounts include, but are not limited to:

Provisions

Significant judgment and use of assumptions is required in determining the Group's provisions. Management uses its best estimates based on current knowledge in determining the amount to be recognized as a provision. Key assumptions utilized in the determination of the rehabilitation provision, which is measured at fair value, include the estimated life of mine, estimates of reserves and discount rates. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of the liability that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

Property, plant and equipment, mineral rights and other intangible assets

The Group makes use of experience and assumptions in determining the useful lives and residual values of property, plant and equipment, mineral rights and other intangible assets (other than goodwill). Management reviews annually whether any indications of impairment exist. Information that the Group considers includes changes in the market, economic and legal environment in which the Group operates as well as internal sources of information. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in coal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, appreciation of the Rand relative to the US Dollar, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics could result in a write-down of the carrying amounts of the Group's assets.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Property, plant and equipment, mineral rights and other intangible assets (continued)

As of December 31, 2016, based on management's estimate of the recoverable amount of the BC Dundee Group properties, no impairment was recorded. If the discount rate had been 1% higher than management's estimates, or if the foreign exchange rate between the Rand and the US Dollar had been 5% higher than management's estimates, the Group would still not have recognized any impairment at December 31, 2016. An impairment loss of R137.9 million was recorded at December 31, 2015 as a result of management's review, which resulted in the write-down of property, plant and equipment.

Capitalization of exploration and evaluation costs

Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geological and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.

Taxes and recoverability of potential deferred tax assets

The Company is subject to income, value added, withholding and other taxes in various jurisdictions. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

In assessing the probability of realizing deferred tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in South Africa.

Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions could materially affect the fair value estimates.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Compound financial instruments

The Group has entered into agreements in the form of foreign-currency-denominated convertible loans and warrants which are accounted for as compound financial instruments. The fair value of the embedded derivative liabilities (conversion option liability and warrant liability) are determined at the date of the transaction and are fair valued at each reporting date through profit or loss using generally accepted valuation techniques. Assumptions are made and judgments are used in applying valuation techniques.

These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield and risk free rate of return. Such judgments and assumptions are inherently uncertain. Changes in these assumptions could materially affect the fair value estimates.

Mineral reserve estimates

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Group's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation.

Incorrect assumptions by management, including economic assumptions such as coal prices, foreign exchange rates and market conditions could have a material effect on the Group's reserves and resources, and as a result, could also have a material effect on the Group's financial position and results of operation.

Going concern assumption

The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Group will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. If the going concern assumption was not appropriate for these consolidated financial statements then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications. Such adjustments could be material.

NEW ACCOUNTING POLICIES

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board ("IASB") or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2016 or later periods.

IFRS 10 - *'Consolidated Financial Statements' and IAS 28 – 'Investment in Associates and Joint Ventures'.*
The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. Consequential amendments have also been made to IAS 28 to clarify that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value.

NEW ACCOUNTING POLICIES (continued)

The amendments further clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

Moreover, the amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries. This amendment has not had a significant impact on the Group.

IFRS 11 – '*Joint Arrangements'*
The amendments provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 *Business Combinations.* Specifically the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (IAS 12 and IAS 36) should be applied. This amendment has not had a significant impact on the Group.

IAS 1 – *'Presentation of Financial Statements'*
IAS 1 was amended in December 2014 in order to clarify, among other things, that useful information should not be obscured by aggregating or disaggregating that information and that materiality considerations apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. This amendment has not had a significant impact on the Group.

IAS 27 – *'Separate Financial Statements'*
IAS 27 was amended in August 2014 to reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. This amendment has not had a significant impact on the Group.

Amendments to IAS 16 – *'Property, Plant and Equipment',* and IAS 38 – *'Intangible Assets' - Clarification of Acceptable Methods of Depreciation and Amortization*
The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. The presumption can only be rebutted in the following two limited circumstances: when the intangible asset is expressed as a measure of revenue; or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Currently, the Group uses the straight-line or units of production method for depreciation and amortization of its property, plant and equipment, and intangible assets respectively. This amendment has not had a significant impact on the Group.

IFRS 5 – '*Non-current Assets Held for Sale and discontinued operations*'
The amendments introduce specific guidance for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held for distribution accounting is discontinued.

NEW ACCOUNTING POLICIES (continued)

IFRS 7 – '*Financial Instruments: Disclosures'*
The amendments provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

A further amendment removes the phrase 'and interim periods within those annual periods', clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. However, IAS 34 requires an entity to disclose 'an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period'. Therefore, if the IFRS 7 disclosures provide a significant update to the information reported in the most recent annual report, it would be expected that the disclosures be included in the entity's condensed interim financial report.

Amendments to IAS 19 – *'Defined Benefit Plans: Employee Contributions'* - These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

IAS 34, *'Interim Financial Reporting'*- The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g. in the management commentary or risk report).

The amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34 did not have a significant impact on the Group.

Future Accounting Changes

The following standards, amendments and interpretations are issued but not yet effective for the December 31, 2016 financial year-end:

IFRS 9 -*'Financial Instruments' – effective January 1, 2018*
IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments.

All recognized financial assets that are within the scope of IAS 39, *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. In addition, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

NEW ACCOUNTING POLICIES (continued)

Future Accounting Changes (continued)

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income ("OCI"), unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Group anticipates that the application of IFRS 9 in future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group undertakes a detailed review.

IFRS 15 – *'Revenue from Contracts with Customers' – effective January 1, 2018*
IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18, *Revenue*; IAS 11*, Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Group anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

NEW ACCOUNTING POLICIES (continued)

Future Accounting Changes (continued)

IFRS 16 - '*Leases' – effective January 1, 2019*
IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. It will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees except for short-term lessees and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and interest portion which will be presented as financing and operating cash flows respectively. It is not practicable to provide a reasonable estimate of the effect of IFRS 16 until the Group undertakes a detailed review.

IAS 7 – *Disclosure Initiative – effective January 1, 2017*
The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The Group does not anticipate that the application of these amendments will have a significant impact on the Group's consolidated financial statements.

IAS 12 – *Recognition of Deferred Tax Assets for unrealized losses – effective January 1, 2017*
The amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets.

The amendments clarify the existing guidance under IAS 12. They do not change the underlying principles for the recognition of deferred tax assets. The Group does not anticipate that the application of these amendments will have a significant impact on the Group's consolidated financial statements.

IFRIC 22 – *Foreign Currency Transactions and Advance Consideration – effective January 1, 2018*
IFRIC 22 was issued in December 2016 and addresses foreign currency transactions or parts of transactions where there is consideration that is denominated in a foreign currency; a prepaid asset or deferred income liability is recognised in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepaid asset or deferred income liability is non-monetary. The interpretation committee concluded that the date of the transaction, for purposes of determining the exchange rate, is the date of initial recognition of the non-monetary prepaid asset or deferred income liability. Earlier adoption is permitted.

FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses of the Group) for each class of financial asset and financial liability are disclosed in Note 2 of the annual consolidated financial statements for the years ended December 31, 2016 and December 31, 2015.

The Company's financial assets and financial liabilities as at December 31, 2016 and December 31, 2015 were as follows:

Financial instruments	Loans and receivables	Fair value through profit or loss	Liabilities at fair value through profit or loss	Other liabilities at amortized cost	Total
December 31, 2016					
Trade and other receivables (excluding non-financial assets)	**74 865 191**	**-**	**-**	**-**	**74 865 191**
Investments in financial assets	**-**	**41 633 486**	**-**	**-**	**41 633 486**
Cash (excluding restricted cash)	**13 753 934**	**-**	**-**	**-**	**13 753 934**
Non-interest bearing receivables	**1 902 205**	**-**	**-**	**-**	**1 902 205**
Investec borrowings	**-**	**-**	**-**	**(161 016 413)**	**(161 016 413)**
RCF loan facilities	**-**	**-**	**(31 905 346)**	**(336 288 222)**	**(368 193 568)**
Trade and other payables (excluding non-financial liabilities)	**-**	**-**	**-**	**(119 837 547)**	**(119 837 547)**

Financial instruments	Loans and receivables	Fair value through profit or loss	Liabilities at fair value through profit or loss	At amortized cost	Total
December 31, 2015					
Trade and other receivables (excluding non-financial assets)	65 247 651	-	-	-	65 247 651
Investments in financial assets	-	35 674 589	-	-	35 674 589
Cash (excluding restricted cash)	20 365 446	-	-	-	20 365 446
Non-interest bearing receivables	1 697 948	-	-	-	1 697 948
Investec borrowings	-	-	(2 144 609)	(169 250 278)	(171 394 887)
RCF loan facilities	-	-	(124 378 349)	(299 753 846)	(424 132 195)
Trade and other payables (excluding non-financial liabilities)	-	-	-	(160 102 755)	(160 102 755)

CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statements of financial position) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statements of financial position plus net debt.

The gearing ratios at December 31, 2016 and December 31, 2015 were as follows:

	December 31, 2016	**December 31, 2015**
Total borrowings	**529 554 608**	595 527 082
Less: cash and cash equivalents	**(13 753 934)**	(20 365 446)
Net debt	**515 800 674**	575 161 636
Total equity	**(221 702 172)**	(216 294 947)
Total capital	**294 098 502**	358 866 689
Gearing ratio (net debt/total capital)	**175%**	160%

Included within total borrowings is a convertible loan of R371.0 million (period ended December 31, 2015: R419.6 million). The Company's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2016 except for the Investec facilities and the RCF Convertible loan.

The Company is not subject to any externally imposed capital requirements with the exception of the RCF Convertible Loan, the Investec facilities and the capital requirements of the TSXV which requires adequate working capital or financial resources of the greater of (i) C$50 000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

As of December 31, 2016, the Company may not be compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks such as foreign exchange risk, price risk, cash flow interest rate risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by head office management under policies approved by the Board of Directors. The Group identifies, evaluates and manages financial risks in close co-operation with the Group's subsidiaries.

FINANCIAL RISK FACTORS (continued)

Market risk

(a) Foreign exchange risk

The Company's functional currency is the Rand. The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures with respect to the US Dollar and Canadian Dollar. The Group's foreign exchange risk arises primarily from the sale of coal, based on the API 4 coal price index in US Dollars to foreign customers, external loans denominated in US Dollars and translation differences arising from the translation of share capital and other equity items.

At December 31, 2016, a 10% increase/(decrease) in the period average foreign exchange rate between the Canadian Dollar and the Rand would have increased/(decreased) the Group's profit or loss by approximately R3.5 million (period ended December 31, 2015: R13.4 million).

A 10% increase/(decrease) in the period end foreign exchange rate between the US Dollar and the Rand would have increased/(decreased) the Group's profit or loss by approximately R36.4 million (period ended December 31, 2015: R41.1 million).

(b) Price risk

The Group is exposed to commodity price risk, primarily due to fluctuations in the API 4 coal price index, by which foreign coal sales are priced. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Group's control. The supply and demand for commodities, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities including governmental reserves and stability of exchange rates can all cause significant fluctuations in commodity prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

At December 31, 2016, a 10% change in the API 4 coal price index would have resulted in a corresponding change in export coal revenue of approximately R2.1 million (period ended December 31, 2015: R18.5 million).

(c) Cash flow interest rate risk

The Group's interest rate risk arises from deposits held with banks and interest-bearing liabilities. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. During the current and prior financial year the Group's borrowings at variable rates were denominated in South African Rands.

Based on the simulations performed, the impact on profit or loss of a 1% shift of interest rates on borrowings would be a maximum increase/(decrease) in profit or loss of R1.4 million (period ended December 31, 2015: R1.4 million).

Credit risk

Credit risk is managed at a Group level, except in respect of trade receivables which are managed at an operational level.

FINANCIAL RISK FACTORS (continued)

Credit risk (continued)

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. The Group only transacts with high quality financial institutions.

Risk control assesses the credit quality of customers, taking into account their financial position, past experience and other factors. The utilization of credit limits is regularly monitored. No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

Restricted cash totaling R11.2 million was on deposit with First National Bank ("FNB") to be released to the relevant counterparties if payments are not made to them.

Liquidity risk

Cash flow forecasting is performed by Group finance. Group finance monitors 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/equity financing plans, covenant compliance and external legal requirements. Refer to the *Financial Condition Review* section for an analysis of the Group's non-derivative financial liabilities disclosed in maturity groupings based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Fair value estimation

Financial instruments carried at fair value are assigned to different levels of the fair value hierarchy, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value at December 31, 2016 and December 31, 2015:

FINANCIAL RISK FACTORS (continued)

Fair value estimation (continued)

	Level 1 R	Level 2 R	Level 3 R
December 31, 2016			
Investment in financial assets	**41 633 486**	**-**	**-**
Conversion option liability	**-**	**31 905 346**	**-**
Warrant liability	**-**	**344 627**	**-**
December 31, 2015			
Investment in financial assets	35 674 589	-	-
Conversion option liability	-	124 378 349	-
Warrant liability	-	2 144 609	-

GOING CONCERN

The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Group will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Market conditions deteriorated significantly over the prior financial years necessitating, during the financial year ended December 31, 2015, the implementation of various restructurings at BC Dundee including two retrenchment processes and the conclusion of agreements with STA. The arrangements with STA include the STA Contract Mining Agreement, the sale of certain underground mining equipment to STA and the STA Equity Settlement Agreement. In addition, the Company secured additional funding from RCF and Investec in December 2015, of which the last tranche was drawn in March 2016. During 2016, the Group entered into contracts with a significant export customer for the sale of built-up anthracite stockpiles at market-related pricing, which has and will inject cash into the Group. Although the Group has implemented various restructuring initiatives, the Group continues to experience operational challenges. The Group remains dependent upon sustaining profitable levels of operation, as well as the continued support of Investec, RCF and other stakeholders and believes that, subject to its ability to meet current forecasts, it should be able to generate positive cash flows in the foreseeable future.

If the going concern assumption was not appropriate for the annual consolidated financial statements then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications. Such adjustments could be material.

OTHER RISKS AND UNCERTAINTIES

Investing in the Company involves risks that should be carefully considered. The business of the Company is speculative due to the high-risk nature of coal mining and exploration. Investors should be aware that there are various risks, including those discussed below, that could have a material adverse effect on, among other things, the operating results, earnings, properties, business and condition (financial or otherwise) of the Company.

OTHER RISKS AND UNCERTAINTIES (continued)

Additional Capital

The continued sustainability of the BC Dundee Properties, including the expansion of mining operations and the continued sustainability of the Group, may require additional working capital and capital expenditures and therefore require additional financing. Failure to obtain sufficient financing may result in a delay or indefinite postponement of development or production on the BC Dundee Properties. Additional financing may not be available when needed or if available, the terms of such financing might not be favorable and might involve substantial dilution to shareholders. Failure to raise capital when needed may have a material adverse effect on the Company's business, financial condition and results of operations.

Production Estimates

BC Corp has prepared estimates of future coal production for its existing and future mines. BC Corp cannot give any assurance that it will achieve its production estimates. The failure by BC Corp to achieve its production estimates could have a material adverse effect on any or all of its future cash flows, profitability, results of operations and financial conditions. The realization of production estimates is dependent on, among other things, the accuracy of mineral reserve and resource estimates, the accuracy of assumptions regarding coal quality and recovery rates, ground conditions (including hydrology), geological conditions, the physical characteristics of the coal, the presence or absence of particular metallurgical characteristics, and the accuracy of the estimated rates and costs of mining and processing.

Actual production may vary from estimates for a variety of reasons, including the actual coal mined varying from estimates of quality or tonnage; dilution, metallurgical and other characteristics (whether based on representative samples of coal or not); short-term operating factors such as the need for sequential development of production panels and the processing of new or adjacent coal qualities from those planned; mine failures or section failures; industrial accidents; natural phenomena such as inclement weather conditions, floods, droughts, rock slides and earthquakes; encountering unusual or unexpected geological conditions; changes in power costs and potential power shortages; shortages of principal supplies needed for mining operations including explosives, fuels, chemical reagents, water, equipment parts, stonedust, magnetite and lubricants; plant and equipment failure; the inability to process certain types of coals; labour shortages or strikes; and restrictions or regulations imposed by government agencies or other changes in the regulatory environment.

Such occurrences could also result in damage to mineral properties or mines, interruptions in production, injury or death to persons, damage to property of BC Corp or others, monetary losses and legal liabilities in addition to adversely affecting coal production. These factors may cause a coal reserve that has been mined profitably in the past to become unprofitable, forcing BC Corp to cease production.

Price of Coal

The Company's profits are directly related to the cost of production, and volume and price of coal sold. Price volatility could have a significant impact on the future revenues and profitability of the Company.

OTHER RISKS AND UNCERTAINTIES (continued)

Price of Coal (continued)

Coal demand and price are determined by numerous factors that are beyond the control of the Company including the demand for electricity: the supply and demand for domestic and foreign coal; interruptions due to transportation delays; air emission standards for coal-fired power plants; regulatory, administrative and judicial decisions; the price and availability of alternative fuels, including the effects of technology developments; the effect of worldwide energy conservation efforts, future limitations on utilities' ability to use coal as an energy source due to the regulation and/or taxation of greenhouse gases; proximity to, capacity of, and cost of transportation facilities; and political and economic conditions and production costs in major coal producing regions. The combined effects of any or all of these factors on coal price or volume are impossible for the Company to predict. If realized coal prices fall below the full cost of production and remain at such level for any sustained period, the Company will experience losses, which may be significant and as a result the Company may decide to discontinue affected operations forcing it to incur closure or care and maintenance costs, as the case may be.

Labour and Employment Matters

While the Company believes that it has good relations with both its unionized and non-unionized employees, production at the Company's mining operations is dependent upon the efforts of the Company's employees and those of its contractors. Relations between the Company and its employees may be impacted by changes in the scheme of labour relations that may be introduced by the relevant governmental authorities in whose jurisdictions the Company carries on business.

During the 2016 year, BC Corp completed wage negotiations with the unions for the forthcoming financial year.

Cost Estimates

Capital and operating cost estimates made in respect of BC Corp's mines and development projects may not prove accurate. Capital and operating cost estimates are based on the interpretation of geological data, feasibility studies, anticipated climatic conditions, other factors and assumptions regarding foreign exchange currency rates and domestic inflation.

Any such events could affect the ultimate accuracy of such estimates; unanticipated changes in quality and tonnage of coal to be mined and processed; incorrect data on which engineering assumptions are made; delay in construction schedules, unanticipated transportation costs; the accuracy of major equipment and construction cost estimates; labour issues; changes in government regulation (including regulations regarding prices, cost of consumables and capital goods, royalties, duties, taxes, permitting and restrictions on production quotas on exportation of minerals) and title claims.

OTHER RISKS AND UNCERTAINTIES (continued)

Mineral Legislation

The business of mineral exploration, development, mining and processing is subject to various national and local laws and plans relating to permitting and maintenance of titles, environmental consents, employee relations, health and safety, royalties, land acquisitions and other matters. There is a risk that the necessary permits, consents, authorizations and agreements to implement planned exploration, development or mining may not be obtained under conditions or within the time frames that make such plans economic, that applicable laws, regulations or the governing authorities will change or that such changes will result in additional material expenditures or time delays. In addition, mining legislation in South Africa, including the Mineral and Petroleum Resources Development Act, 28 of 2004 ("MPRDA") is currently under review and the proposed amendments, if passed by Government, could have a material impact on the Company's operations.

Compliance with regulation 8.10 of the Mine Health and Safety Act, 29 of 1996 may require significant capital outlay on behalf of the Company and may cause material changes or delays in the Company's intended activities. Management is currently assessing options to comply with the regulation. These regulations could have a material impact on the Company's operations.

Title to Mineral Holdings

BC Corp requires licenses and permits from various governmental authorities. BC Corp believes that it holds all necessary licenses and permits under applicable laws and regulations in respect of the BC Dundee Properties and that it is presently complying in all material respects with the terms of such licenses and permits. Such licenses and permits, however, are subject to change in various circumstances. There can be no guarantee that the Company will be able to obtain or maintain all necessary licenses and permits that may be required to explore and develop or mine its properties. The validity of ownership of property holdings can be uncertain and may be contested. Although BC Dundee has attempted to acquire satisfactory title to its properties, risk exists that some titles, particularly titles to undeveloped properties, may be defective.

Refer to *Legal proceedings* in *Overview of the Period and Outlook for the Group* section above, with regards to the legal processes in respect of MR174 and MR301.

Power Supply

The supply of electric power is not guaranteed in South Africa. Currently the public supply is sufficient to power all of the operations at the BC Dundee Properties; however South African power supply is limited, with limited reserve capacity. In the 2015 Financial Year, the country had been plagued with a shortage of supply , which has led to sporadic "loadshedding" of power in certain areas of the country. This situation has improved especially in the later part of 2016. This has and could continue to negatively affect the production at the mines in terms of lost production and increased costs. The Company has procured diesel power generators for backup power to the various sub-stations that have been installed on the surface and underground at the BC Dundee Properties.

Additionally, any production expansion plan for the BC Dundee operations would be dependent on additional electrical supply, and the majority of new build projects in the country are behind schedule. While the Company has taken steps to meet the need for additional supply of electricity from the public utility (Eskom), there can be no assurance that the BC Dundee Properties will not be negatively affected by the power supply situation on either an operating or cost basis, or both.

OTHER RISKS AND UNCERTAINTIES (continued)

Depletion of Mineral Reserves

The Company must continually replace mining reserves depleted by production to maintain production levels over the long-term. There is no assurance that the Company's exploration programs will result in any new commercial mining operations or yield new reserves to replace or expand current reserves.

Litigation

All industries, including the mining industry, are subject to legal claims, with and without merit. Legal proceedings may arise from time to time in the course of the Company's business. Such litigation may be brought against the Company or one or more of its subsidiaries in the future from time to time or the Company or one or more of its subsidiaries may be subject to another form of litigation. Defense and settlement costs of legal claims can be substantial, even with respect to claims that have no merit. As of the date hereof, except as disclosed in the *Overview of the Period and Outlook for the Group* section above, no other material claims have been brought against the Company, nor has the Company received an indication that any claims are forthcoming.

Due to the inherent uncertainty of the litigation process, the process of defending such claims (or any other claims that may be brought against the Company) could take away from management time and effort and the resolution of any particular legal proceeding to which the Company or one or more of its subsidiaries may become subject could have a material effect on the Company's financial position and results of operations.

South Africa Country Risks

The operations of the Company are subject to risks normally associated with the conduct of business in South Africa. Risks may include, among others highlighted herein, problems relating to labour disputes, delays or invalidation of governmental orders and permits, corruption and fraud, uncertain political and economic environments, civil disturbances and crime, arbitrary changes in laws or policies, foreign taxation and exchange controls, opposition to mining from environmental or other non-governmental organizations or changes in the political attitude towards mining, limitations on foreign ownership, limitations on repatriation of earnings, infrastructure limitations and increased financing costs.

There have been recent calls in South Africa for the nationalization and expropriation without compensation of domestic mining assets. Any such development would have a significant adverse effect on the Company.

The labour situation in South Africa has been unstable across the mining industry, and in particular in the platinum industry and in the metal and engineering sector. There is a risk that this instability extends into other sectors, including the coal sector. There have also been retrenchments carried out by numerous companies across the industry.

HIV is prevalent in Southern Africa and tuberculosis is prevalent in the KwaZulu-Natal Province of South Africa, where the Company's operations are situated. Employees of the Company may have or could contract either of these potentially deadly illnesses. The prevalence of HIV and tuberculosis could cause substantial lost employee man-hours and may influence the Company's ability to source skilled labour. The above risks may limit or disrupt the Company's business activities.

OTHER RISKS AND UNCERTAINTIES (continued)

South Africa Country Risks (continued)

The Company's mining operations must remain compliant with South African mining laws, including, *inter alia*, the MPRDA and the Mining Charter, the conditions imposed by the licenses held by the Company, and the BEE participation requirements. However, no assurance can be given that the Company will be able to meet the objectives of South African mining laws going forward, including the 26% HDSA ownership objective and compliance with the requirements of the Mining Charter. There is also no guarantee that the interests of the Company will be wholly aligned with the interests of its (direct or indirect) BEE shareholders.

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants that affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

Environmental Risks and Other Hazards

All phases of the Company's operations will be subject to environmental regulation in South Africa. Environmental legislation in many countries is evolving and the trend has been toward stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and increasing responsibility for companies and their officers, directors and employees.

Compliance with environmental laws and regulations may require significant capital outlays on behalf of the Company and may cause material changes or delays in the Company's intended activities. There can be no assurance that future changes in environmental regulations and the manner in which the regulatory authorities enforce these regulations will not adversely affect the Company's business, and it is possible that future changes in these laws or regulations could have a significant adverse impact on some portion of the Company's business, causing the Company to re-evaluate those activities at that time.

Mining involves various other types of risks and hazards, including: industrial accidents; processing problems; unusual or unexpected geological structures; structural cave-ins or slides; flooding; fires; and periodic interruptions due to inclement or hazardous weather conditions. These risks could result in damage to, or destruction of, mineral properties, production facilities or other properties, personal injury, delays in mining, increased production costs, monetary losses and possible legal liability.

Dependence on Key Personnel

The Company is dependent on a relatively small number of key personnel. The Company currently does not have key person insurance on these individuals. Due to the Company's relatively small size, the loss of these persons or the Company's inability to attract and retain additional highly skilled employees required for the operation of the Company's activities may have a material adverse effect on the Company's business or future operations.

OTHER RISKS AND UNCERTAINTIES (continued)

Dependence on Outside Parties

The Company has relied upon consultants, engineers, contractors and others and intends to rely on these parties for exploration, extraction, development, construction and operating expertise. Substantial expenditures are required to develop coal properties, to establish mineral reserves through drilling, to carry out environmental and social impact assessments, to develop processes to extract coal and, in the case of new properties, to develop the exploration and infrastructure at any particular site. If such parties' work is deficient or negligent or is not completed in a timely manner, it could have a material adverse effect on the Company.

Effective October 31, 2015, STA is mining four sections at Magdalena. The Company retains legal and operational responsibilities for these mining operations and must maintain adequate oversight and involvement to ensure compliance and optimum performance by STA.

Exploration and Development

The exploration and development of coal deposits involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of a mineable deposit may result in substantial rewards, few properties that are explored are ultimately developed into producing mines.

Major expenses may be required to establish additional reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration programs planned by the Company will result in profitable commercial mining operations, and significant capital investment is required to achieve commercial production from successful exploration efforts. There is no certainty that exploration expenditures made by the Company will result in discoveries of commercial mineable quantities. Exploration for coal is highly speculative, involves substantial expenditures, and is frequently non-productive.

Tax and Foreign Mining Tax Regimes

The Company is subject to income, value added, withholding and other taxes in various jurisdictions. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

Mining tax regimes in foreign jurisdictions are subject to differing interpretations and are subject to constant change. The Company's interpretation of taxation law as applied to its transactions and activities may not coincide with that of the tax authorities. As a result, transactions may be challenged by tax authorities and the Company's operations may be assessed, which could result in significant additional taxes, penalties and interest. In addition, proposed changes to mining tax regimes in foreign jurisdictions could result in significant additional taxes payable by the Company, which would have a negative impact on the financial results of the Company.

OTHER RISKS AND UNCERTAINTIES (continued)

Insurance and Uninsured Risks

The Company's business is subject to a number of risks and hazards generally, including: adverse environmental conditions; industrial accidents; labour disputes; unusual or unexpected geological conditions; ground or slope failures; cave-ins; changes in the regulatory environment; and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, delays in mining, monetary losses and possible legal liability. The businesses and properties of the Company are insured against loss or damage, subject to a number of limitations and qualifications. Such insurance will not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms.

The Company might also become subject to liability for pollution or other hazards that may not be insured against or that the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Competition

The mining industry is intensely competitive. Significant competition exists for the acquisition of properties producing or capable of producing coal. The Company may be at a competitive disadvantage in acquiring additional mining properties because it must compete with other individuals and companies, many of which have greater financial resources, operational experience and technical capabilities than the Company. The Company may also encounter increasing competition from other mining companies in its efforts to hire experienced mining professionals. Increased competition could adversely affect the Company's ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

The Company's Securities May Experience Price Volatility

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies have experienced wide fluctuations in price that have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Factors unrelated to the financial performance or prospects of the Company include macroeconomic developments in North America and globally, and market perceptions of the attractiveness of particular industries. There can be no assurance that continued fluctuations in coal prices will not occur. As a result of any of these factors, the market price of the securities of the Company may not accurately reflect the longer term value of the Company.

OTHER RISKS AND UNCERTAINTIES (continued)

The Company's Securities May Experience Price Volatility (continued)

As of the date of this MD&A, RCF owns 347 945 097 Common Shares representing approximately 87.2% of the currently issued and outstanding Common Shares. Assuming RCF converts an additional US$18.0 million of the remaining US$27.0 million RCF Convertible Loan before December 31, 2017 (as required by the Investec funding terms), and the remaining US$9.0 million of the RCF Convertible Loan on June 30, 2019, interest on the RCF Convertible Loan is settled quarterly in Common Shares at an interest rate of 1.29% per annum for the full term and STA is issued Common Shares on a quarterly basis for the Equity Portion until such time as STA holds 9.9% of the Company, however STA is estimated to hold 5.3%, and RCF would hold 92.1% of the issued and outstanding Common Shares on June 30, 2019 on a fully diluted basis. This excludes the effects of potential dilution of the exercise of the Investec warrants, which are currently out of the money.

There is a risk that the Company's securities will not trade on the open market due to a majority holding by one entity.

Foreign Assets

All of the assets of the Company are located in jurisdictions outside of Canada. As a result, it may be difficult for shareholders resident in Canada or other jurisdictions to enforce judgments obtained against the Company in Canada.

Currency Fluctuations

Currency fluctuations may affect the Company's costs and margins. Adverse fluctuations in the South African Rand relative to the US Dollar and the Canadian Dollar and other currencies could materially and adversely affect the Company's profitability, results of operation and financial position.

The Company's Directors and Officers may have Conflicts of Interests

Certain of the Company's directors and officers also serve as directors and/or officers of other companies involved in natural resource exploration, development and production and as directors and/or officers of RCF being the major shareholder of the Company. Consequently there exists the possibility that such directors may be in a position of conflict in respect of proposed transactions or the operation of the Company.

The directors and officers of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interests that they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the Board of Directors of the Company, any director in a conflict will be required to disclose his or her interest and abstain from voting on such matter.

NON-IFRS PERFORMANCE MEASURES

The Company has included in this document certain non-IFRS performance measures that are detailed below. These non-IFRS performance measures do not have any standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other companies. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors use this information to evaluate the Company's performance. Accordingly, they are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The definition for these performance measures and reconciliation of the non-IFRS measures to reported IFRS measures are as follows:

Working Capital

Working capital includes current assets and current liabilities, excluding provisions and non-financial instruments.

	December 31, 2016 R'000	December 31, 2015 R'000
Current assets		
Cash and cash equivalents	**13 754**	20 365
Trade and other receivables	**84 773**	75 581
Inventories	**35 222**	42 226
Non-interest bearing receivables	**1 902**	1 698
Taxation receivable	**-**	52
	135 651	139 922
Current liabilities		
Trade and other payables (excluding provisions)	**158 262**	161 401
Current portion of borrowings	**161 361**	25 714
Current Tax Liabilities	**8 775**	-
	328 398	187 115
Net working capital	**(192 747)**	(47 193)

Adjusted EBITDA

Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortization and adding back the following: Impairment or reversal of an impairment of an asset, fair value adjustments to financial instruments, stock-based compensation, foreign exchange gains and losses, and non-recurring transaction expenses or income.

The reconciliation of operating loss to adjusted EBITDA is as follows:

NON-IFRS PERFORMANCE MEASURES (continued)

Adjusted EBITDA (continued)

	12 months ended		3 months ended		
R'000	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	September 30, 2016
Operating profit/(loss) for the period	**33 755**	(457 018)	**1 254**	(149 809)	(11 771)
Depreciation and amortization	**57 026**	76 152	**7 431**	17 935	16 412
Impairment of receivables	**1**	(1)	**-**	-	1
Impairment of property, plant and equipment and intangible assets	**-**	137 889	**-**	14 558	-
Fair value adjustments of financial assets and conversion option	**(93 363)**	(102 226)	**(5 169)**	(13 681)	(21 930)
Loss on extinguishment of debt	**50 647**	195 880	**-**	84 038	50 647
Loss on remeasurement of non-current assets held for sale	**-**	10 833	**-**	-	-
Stock-based compensation	**177**	799	**(102)**	173	52
Foreign exchange gains & losses	**(36 740)**	66 740	**(3 990)**	32 489	(19 849)
Adjusted EBITDA	**11 503**	(70 952)	**(576)**	(14 297)	13 562

Net Revenue

The Group restructured several of its offtake contracts during Q1 2016 from an FOB shipping basis to short-term Rand denominated FCA contracts, resulting in revenue not being directly comparable year on year. Below is a reconciliation of revenue as disclosed in the Consolidated Financial Statements for the years ended December 31, 2016 and December 31, 2015 to net revenue which excludes all railage, port handling and wharfage related costs:

	12 months ended		3 months ended		
R'000	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	September 30, 2016
Revenue	**660 582**	630 999	**183 887**	127 208	178 148
Railage, port handling and wharfage	**19 398**	54 462	**2 880**	13 032	5 897
Net revenue	**641 184**	576 538	**181 007**	114 176	172 251

Headline loss per share

Headline loss is a profit measure required for JSE-listed companies as defined by the South African Institute of Chartered Accountants. Headline loss per share is a basis for measuring earnings per share which accounts for all the profits and losses from operational, trading, and interest activities, that have been discontinued or acquired at any point during the year. Excluded from this figure are profits or losses associated with the sale or termination of discontinued operations, fixed assets or related businesses, or from any permanent devaluation or write off of their values.

NON-IFRS PERFORMANCE MEASURES (continued)

Headline loss per share (continued)

Reconciliation of loss for the periods to headline loss is disclosed below:

	12 months ended December 31, 2016	12 months ended December 31, 2015
Loss for the period	**(45 544 024)**	(561 824 654)
Net loss/(profit) on disposal of property, plant and equipment	**4 008 157**	(3 601 936)
Headline loss for the period	**(41 535 867)**	(565 426 590)
Headline loss per share - basic and diluted	**(0.12)**	(5.34)

SUMMARY OF SECURITIES AS AT MARCH 24, 2017

As at March 24, 2017 the following Common Shares, Common Share purchase options and share purchase warrants were issued and outstanding:

- 399 089 930 Common Shares;
- 3 343 303 Common Share purchase options with exercise prices ranging from C$0.0387-C$0.29 with a weighted average remaining contractual life of 2.88 years;
- 34 817 237 warrants with a strike a price of C$0.1446 maturing on July 3, 2019.

LIST OF DIRECTORS AND OFFICERS

Craig Wiggill	Director, Chairman of the Board of Directors
Robert Francis	Director
Edward Scholtz	Director
David Thomas	Director
Rowan Karstel	Chief Executive Officer
Graham du Preez	Chief Financial Officer and Corporate Secretary

March 24, 2017