



KeatonEnergy»

Keaton Energy Holdings Limited

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(Incorporated in the Republic of South Africa)

(Registration number 2006/011090/06)

JSE share code: KEH ISIN: ZAE000117420

("Keaton Energy" or "the Company" or "the Group")

REVIEWED INTERIM CONDENSED GROUP RESULTS

for the six-month period ended 30 September 2009

Key features

- » First major project, Vanggatfontein, gets go-ahead
 - 30 000 tpm of premium-priced 5 Seam metallurgical coal for domestic market
- » Strong cash position – R366 million
 - R8 million Klip Colliery stockpiles sold after reporting period
- » Sterkfontein Project drilling continues
 - successful completion of acquisition of contiguous prospecting right
 - well timed to benefit from improving market conditions

powering up »

Reviewed Interim Condensed Group Results

for the six-month period ended 30 September 2009

Condensed Consolidated Statement of Comprehensive Income				
R'000	Note	Six months to 30 September 2009 (Reviewed)	Six months to 30 September 2008 (Reviewed)	Year to 31 March 2009 (Audited)
Revenue		9 853	–	5 424
Cost of sales		(9 413)	–	(1 874)
Gross profit		440	–	3 550
Other income	3	1 779	458	677
Administrative and other operating expenses	4	(7 744)	(7 527)	(13 623)
Mining and related expenses	4	(5 671)	(4 809)	(10 078)
Share appreciation rights income / (expense)	5	4 521	(2 003)	(4 126)
Impairment and net realisable value losses	6	(5 926)	–	(4 214)
Operating loss before net finance income		(12 601)	(13 881)	(27 814)
Net finance income		15 493	22 406	44 509
Net profit before taxation		2 892	8 525	16 695
Income taxation expense	7	(3 891)	(6 617)	(11 853)
(Loss) / Profit for the period		(999)	1 908	4 842
Total comprehensive (expense) / income for the period		(999)	1 908	4 842
(Loss) / Profit and Total comprehensive (expense) / income for the period attributable to:				
Owners of the Company		3 883	1 908	4 842
Non-controlling interest		(4 882)	–	–
		(999)	1 908	4 842
Number of shares ('000)				
Weighted average (basic)		143 552	141 658	142 248
Weighted average (diluted)		143 587	145 158	145 783
Earnings per share (cents)				
Basic	8	2.7	1.4	3.4
Headline	8	3.4	1.4	6.4
Basic diluted	8	2.7	1.3	3.3
Headline diluted	8	3.4	1.3	6.2

Condensed Consolidated Statement of Financial Position			
R'000	Note	30 September 2009 (Reviewed)	31 March 2008 (Audited)
Assets			
Non-current assets	9	87 338	59 112
Current assets	10	382 650	386 237
Total assets		469 988	445 349
Equity and liabilities			
Shareholder's equity		453 851	437 189
Non-controlling interest		2 845	–
Total equity		456 696	437 189
Current liabilities	11	13 292	8 160
Total equity and liabilities		469 988	445 349

Condensed Consolidated Statement of Cash Flows			
R'000	Six months to 30 September 2009 (Reviewed)	Six months to 30 September 2008 (Reviewed)	Year to 31 March 2009 (Audited)
Cash flows from operating activities	2 973	(254)	7 390
Cash flows from investing activities	(11 055)	(19 828)	(31 411)
Cash flows from financing activities	–	91 571	90 483
Net (decrease) / increase in cash and cash equivalents	(8 082)	71 489	66 462
Cash and cash equivalents at the beginning of the period	373 698	307 236	307 236
Cash and cash equivalents at the end of the period	365 616	378 725	373 698

Condensed Consolidated Statement of Changes in Equity						
R'000	Share capital and premium	Share- based payment reserve	Retained earnings / (Accumulated loss)	Total	Non- controlling interest	Total equity
Balance at 1 April 2008 (Audited)	341 296	424	(4 982)	336 738	–	336 738
Total comprehensive income for the period	–	–	1 908	1 908	–	1 908
Issue of ordinary shares	100 000	–	–	100 000	–	100 000
Share-based payment transactions	1 000	2 003	–	3 003	–	3 003
Share issue expenses	(9 429)	–	–	(9 429)	–	(9 429)
Balance at 30 September 2008 (Reviewed)	432 867	2 427	(3 074)	432 220	–	432 220
Total comprehensive income for the period	–	–	2 933	2 933	–	2 933
Share-based payment transactions	–	2 123	–	2 123	–	2 123
Share issue expenses	(87)	–	–	(87)	–	(87)
Balance at 31 March 2009 (Audited)	432 780	4 550	(141)	437 189	–	437 189
Total comprehensive income / (expense) for the period	–	–	3 883	3 883	(4 882)	(999)
Share-based payment transactions	17 300	(4 521)	–	12 779	–	12 779
Non-controlling interest resulting from acquisition of a subsidiary	–	–	–	–	7 727	7 727
Balance at 30 September 2009 (Reviewed)	450 080	29	3 742	453 851	2 845	456 696

Notes

1. During the six-month period ended 30 September 2009 the Group's Klip Colliery continued its operations and is nearing the end of its life. The Group also finalised a successful acquisition (contiguous to its existing Sterkfontein Project), whilst the return on its externally invested funds contributed R15.5 million during the period. Accounting adjustments (including the share appreciation rights income, impairment and net realisable value losses, and the allocation of losses to non-controlling interests) had a net positive impact of R3.5 million on the results and basic earnings per share. The overall results for the period remain characteristic of a company in the process of financing its exploration and evaluation activities and developing its first major project, Vanggatfontein, previously known as the Delmas Project.



Reviewed Interim Condensed Group Results (cont.)

2. The financial results are presented for the six-month period ended 30 September 2009. Comparable period figures represent the six-month period ended 30 September 2008. Although not required in terms of IAS 34: Interim Financial Reporting, the comparative statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended 31 March 2009 have also been included.

The condensed consolidated results for the six-month period ended 30 September 2009 are prepared in accordance with International Financial Reporting Standards (IFRS), the Listings Requirements of the JSE Limited (JSE) and the South African Companies Act, 61 of 1973 (as amended). These condensed consolidated financial statements are measured and presented, and disclosures included, in accordance with IAS 34: Interim Financial Reporting. The accounting policies applied are, except for recognition of non-controlling interests in losses (early adoption of IAS 27: Consolidated and Separate Financial Statements (revised)) and applying IAS 1: Presentation of Financial Statements (revised), consistent with those applied in the annual financial statements for the year ended 31 March 2009.

3. Other income includes an amount of R1.6 million representing a damages claim in terms of the default by the original coal buyer at Klip Colliery.

4. Administration, other operational, mining and related expenses include:

- » employee benefit costs (excluding the share appreciation rights income) of R5.6 million;
- » consulting, legal, audit and professional fees of R2.5 million;
- » non-executive directors' fees of R1.0 million;
- » listing and investor relations costs of R1.0 million;
- » head office lease costs of R0.4 million; and
- » depreciation charges not included in cost of sales of R0.4 million.

Note: Mining and related expenses mainly include that portion of management and employees' time spent directly on exploration and production subsidiaries, direct consulting fees by mining and exploration contractors and compensation paid to surface right holders. Administration and other operating expenses mainly include the remainder of the employee benefit costs, non-executive directors' fees, listing and investor relations costs.

5. Share appreciation rights income

One of the main participants of the share incentive scheme resigned. The net positive adjustment of R4.5 million is as a result of the reversal of the share appreciation right expenses recognised in previous periods.

6. Impairment and net realisable value losses

Operations at Klip Colliery have been downscaled during the period (refer to Commentary) resulting in a sharp decrease in the remaining life of mine tonnages. This decrease resulted in the weighted average cost per ton increasing significantly, and low quality stockpiles having to be written down by R4.9 million to their net realisable value. An additional impairment of R1.1 million resulted from capitalised mine development cost at Klip Colliery. Other smaller impairment adjustments (net income of R0.04 million) have also been recognised.

7. Income taxation expense mainly comprises current taxation expense of R3.2 million and a Secondary Tax on Companies of R0.7 million.

8. Earnings per share:

The calculation of basic earnings per share is based on the profit for the period (attributable to owners of the Company) of R3.9 million and a weighted average of 143 551 676 ordinary shares in issue during the period. The net impairment losses of R1.0 million (refer note 6 above) were added back as a reconciling adjustment between the basic and headline earnings per share for the current period, resulting in headline earnings of R4.9 million.

The calculation of diluted earnings per share is based on the same profit of R3.9 million and headline earnings of R4.9 million, with the weighted average number of ordinary shares being adjusted to 143 586 887 as a result of granted notional shares.

IAS 27: Consolidated and Separate Financial Statements (revised) prohibits the retrospective adjustment of losses attributable to non-controlling interests. However, for comparative purposes, the profit/total comprehensive income attributable to owners of the Company would have been R4.9 million had IAS 27 revised been applied for the six-month period ended 30 September 2008, resulting in the basic/headline/diluted/headline diluted earnings per share being 3.4 cents.

9. The movement in non-current assets includes the fair value of R30.1 million relating to the acquisition of prospecting rights.

10. Current assets include:

- » cash of R365.6 million;
- » coal stockpiled of R8.1 million;
- » trade and other receivables of R3.3 million
- » interest receivable of R3.8 million; and
- » value-added tax recoverable of R1.8 million.

11. Current liabilities include:

- » trade and other payables of R6.4 million;
- » environmental rehabilitation provisions of R3.3 million; and
- » taxation of R3.7 million.

12. Issuances of equity during the period:

Number of shares ('000)	Six months to 30 September 2009 (Reviewed)	Year to 31 March 2009 (Audited)
Issued share capital		
At beginning of period	142 841	132 741
Issued for cash during the period	–	10 000
Share-based payments	2 000	100
At end of period	144 841	142 841

13. No dividends have been declared nor are any proposed for the period under review.

14. The net asset value per share at 30 September 2009 is 315 cents (303 cents as at 30 September 2008).

15. Segment information:

Refer to the Commentary below for a description of the projects (segments) of the Group. The Group can be segmented as follows:

R'000	30 September 2009 (Reviewed)	31 March 2009 (Audited)
Total segment assets		
Keaton Mining (Pty) Limited - Sterkfontein Project	23 382	23 288
Keaton Mining (Pty) Limited – Vanggatfontein Project	24 287	22 672
Keaton Mining (Pty) Limited - Klip Colliery	12 795	16 653
Amalahle Exploration (Pty) Limited – Projects	1 853	1 379
Labohlano Trading 46 (Pty) Limited - Sterkfontein Project	33 700	-
Keaton Energy Holdings Limited - Cash resources	365 682	375 819
Total operating segments' assets	461 699	439 811
Assets not allocated to segments	8 289	5 538
	469 988	445 349



Reviewed Interim Condensed Group Results (cont.)

R'000	Six months to 30 September 2009 (Reviewed)	Six months to 30 September 2008 (Unaudited)	Year to 31 March 2009 (Audited)
Segment revenue			
Keaton Mining (Pty) Limited - Klip Colliery (all external customers)	11 447	–	5 424
Keaton Administrative and Technical Services (Pty) Limited (intersegment revenues)	5 724	4 999	10 033
Total operating segments' revenue	17 171	4 999	15 457
Klip Colliery – damages claim disclosed under other income	(1 594)	–	–
Consolidation adjustments	(5 724)	(4 999)	(10 033)
	9 853	–	5 424
Segment profit or loss			
Keaton Energy Holdings Limited * / **	(4 913)	(4 436)	(26 005)
Keaton Administrative and Technical Services (Pty) Limited *	3 622	(3 256)	(6 452)
Keaton Mining (Pty) Limited *	(9 514)	(3 914)	(4 859)
Amalahle Exploration (Pty) Limited *	(1 087)	(961)	(4 217)
Other exploration subsidiaries *	(617)	(1 314)	(3 946)
Total operating segments' results *	(12 509)	(13 881)	(45 479)
Consolidation adjustments	(92)	–	17 665
	(12 601)	(13 881)	(27 814)

* Operating loss before net finance income and taxation

** Excludes finance income of R15.5 million

16. The Group's capital commitments are:

R'000	30 September 2009
Environmental rehabilitation guarantees issued	2 592
Exploration and mine development expenditure authorised, but not contracted	135 214
Exploration and mine development expenditure authorised and contracted	4 725

There was no change to the Group's contingent liabilities during the period.

17. KPMG Inc., the Company's independent auditors, have reviewed the financial information contained in this condensed interim report and have expressed an unmodified conclusion on the condensed interim financial information. Their review report is available for inspection at the Company's registered office.

18. Coal Reserve and Resource Statements

There was no change to the Coal Resource and Reserve Statements at the Group's Vanggatfontein, Sterkfontein and Leeuwfontein Projects (as released in May 2009). The Klip Colliery tonnages decreased as discussed in note 6.

Indicating continued progress towards its target of producing 2 million tonnes per annum of saleable coal, the board has authorised development of the first phase of the Group's first major project, Vanggatfontein (previously known as the Delmas Project), for which regulatory approvals were received during the period under review.

Cash position

The Group's total cash position as at 30 September 2009 amounted to R366 million. A further amount of R8 million was invested in coal stockpiles at the Klip Colliery, which were sold after the reporting period.

Safety, health and the environment

The safety performance of the Group in the period under review has been acceptable. Some 25 374 hours were worked on-site with no lost time injuries recorded. The Group has not had any material health or environmental issues.

Corporate governance

Dr Steven Rupprecht, technical director, resigned during the period. A senior mining executive with considerable coal experience will join the Group early in January 2010, when a further announcement will be made.

Activities during the reporting period

During the period under review the Group's activities have been focused on the following:

- » **Vanggatfontein Project** (Delmas): The culmination of two and a half years of exploration and regulatory effort saw a Mining Right granted in June 2009 for the overall project. The development plan for the project will be phased to take into account market conditions and commercial negotiations.
 - **Phase 1: 5 Seam Project:** The board has approved development of the indicated capital cost of the R130 million Vanggatfontein 5 Seam Project as the first phase of the overall project. This phase, comprising 3.4 million tonnes of 5 Seam metallurgical coal and a 50 000 tonnes per month processing plant, is planned to produce 30 000 tonnes per month to take advantage of premium pricing in the domestic market, a consequence of the recent return to service of smelters by local ferro-alloy producers in response to an anticipated upturn in international demand.
 - **Phase 2: East Pit Project:** The second phase of the project will produce thermal coal and is thus dependent on the receipt of a suitable off-take agreement from Eskom. The Group responded to Eskom's recent Request for Proposals process to supply domestic power station coal and awaits the power utility's response.

Further phases may follow, particularly if markets improve for the significant resource of mid- and low-volatile coal on the property.

- » **Klip Colliery** (Balmoral/Ogies): Operations at the Klip Colliery have been downscaled and will be curtailed prior to the end of the first quarter, 2010, when this small mine will be worked out. The mine site will be rehabilitated in the next reporting period. Subsequent to the default by the life of mine coal off-taker, it has been difficult to find a buyer for the remaining production of the mine at the prices contracted originally, against the backdrop of reduced demand in the domestic market for run-of-mine (ROM) unwashed coal. The remaining ROM coal has been sold however.
- » **Sterkfontein Project** (Bethal): The first phase of the Sterkfontein Extension drilling programme is well advanced on properties contiguous to the east of the 17.3 million tonne South Block resource. Coal has been intersected in all 14 holes drilled thus far, and encouragingly the thickness of the coal has generally exceeded the expected thickness predicted by the geological model. No coal quality data has yet been received and a further 17 holes remain to be drilled prior to the completion of an updated SAMREC compliant resource statement, targeted for release at the end of the first quarter of 2010. The Sterkfontein Extension prospecting right, acquired in early 2009, is held by Keaton Energy's 74% held subsidiary Labohlano Trading 46 (Pty) Limited.
- » **Amalahle Prospects** (Middelburg):
 - **Leeuwfontein Project:** All preparatory work has been completed in order to submit a Mining Right application. Subject to a final review of alternatives for the project, particularly as they relate to neighbouring properties, the Mining Right application will be submitted.
 - **Braamspruit Project:** The Braamspruit Project continues to be the subject of a legal dispute with Anglo Coal, and although some progress was made in the period, a final settlement has not been agreed.

Looking ahead

The development of the Vanggatfontein 5 Seam Project will be the priority for the Group in the next six months. During this time it is also expected that a decision will be made on the development of the Vanggatfontein East Pit (thermal coal) Project. As indicated, this will be subject to the successful conclusion of an off-take agreement. In addition, the board is confident that the Group's Sterkfontein Project will be developed into a major new mine as market conditions improve.

On behalf of the board

David Salter
(Chairman)

Paul Miller
(Managing Director)

25 November 2009

Administration and contact details

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Auditors:

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Directors:

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