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Preliminary summarised audited group results

KeatonEnergy 
Keaton Energy Holdings Limited

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for the year ended 31 March 2009

Keaton Energy Holdings Limited

(Incorporated in the Republic of South Africa)

(Registration number 2006/011090/06)

JSE share code: KEH ISIN: ZAE000117420

("Keaton Energy" or "the company" or "the group")

Summarised Consolidated Income Statement			
	Note	1 April 2008 to 31 March 2009 R'000	1 March 2007 to 31 March 2008 R'000
Revenue		5 424	–
Cost of sales		(1 874)	–
Gross profit		3 550	–
Other income		677	915
Administrative and other operating expenses	4	(13 623)	(8 945)
Mining and related expenses	4	(10 078)	(4 904)
Share appreciation rights expense		(4 126)	(424)
Impairment losses		(4 214)	–
Operating loss before net finance income	3	(27 814)	(13 358)
Net finance income		44 509	11 223
Net profit / (loss) before taxation		16 695	(2 135)
Income taxation expense	5	(11 853)	(2 523)
Profit / (Loss) for the year		4 842	(4 658)
Number of shares ('000)			
Weighted average (basic)		142 248	50 902
Weighted average (diluted)		145 783	52 902
Earnings / (Loss) per share (cents)			
Basic	6	3.4	(9.2)
Headline	6	6.4	(9.2)
Diluted	6	3.3	(9.2)
Headline diluted	6	6.2	(9.2)

Summarised Consolidated Balance Sheet			
	Note	31 March 2009 R'000	31 March 2008 R'000
Assets			
Non-current assets		59 112	40 557
Current assets	7	386 237	313 349
Total assets		445 349	353 905
Equity and liabilities			
Capital and reserves		437 189	336 738
Current liabilities	8	8 160	17 167
Total equity and liabilities		445 349	353 905



Summarised Consolidated Cash Flow Statement

Note	1 April 2008 to 31 March 2009 R'000	1 March 2007 to 31 March 2008 R'000
Cash flows from operating activities	7 390	1 536
Cash flows from investing activities	(31 411)	(20 440)
Cash flows from financing activities	90 483	326 139
Net increase in cash and cash equivalents	66 462	307 235
Cash and cash equivalents at the beginning of the year	307 236	1
Cash and cash equivalents at the end of the year	373 698	307 236

Summarised Consolidated Statement of Changes in Equity

	Share capital and premium R'000	Share- based payment transactions R'000	Accumulated loss R'000	Total attributable to equity holders of the company R'000	Minority interest R'000	Total R'000
Balance at 28 February 2007	–*	–	(324)	(324)	–*	(324)
Ordinary shares issued for cash	332 474	–	–	332 474	–	332 474
Share-based payments	14 861	424	–	15 285	–	15 285
Share issue expenses	(6 038)	–	–	(6 038)	–	(6 038)
Total recognised income and expense for the period (Loss for the period)	–	–	(4 658)	(4 658)	–*	(4 658)
Balance at 31 March 2008	341 297	424	(4 982)	336 739	–	336 739
Ordinary shares issued for cash	100 000	–	–	100 000	–	100 000
Share-based payments	1 000	4 126	–	5 126	–	5 126
Share issue expenses	(9 517)	–	–	(9 517)	–	(9 517)
Total recognised income and expense for the year (Profit for the year)	–	–	4 841	4 841	–	4 841
Balance at 31 March 2009	432 780	4 550	(141)	437 189	–	437 189

* Nominal amounts



Notes

1. The financial results are presented for the year ended 31 March 2009. Prior period figures represent the 13-month period from 1 March 2007 to 31 March 2008. During the year the group's Klip Colliery (previously the Klipfontein Project) started production. The overall results for the year, however, are characteristic of an exploration company in the process of financing its exploration and evaluation activities, with the return on its invested funds resulting in a small profit for the year.
2. The preliminary summarised consolidated results for the year ended 31 March 2009 incorporate extracts of the group's unqualified audited financial statements, and 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 summarised consolidated financial statements are presented and disclosures included in accordance with IAS 34: Interim Financial Reporting. The accounting policies applied are consistent with those applied in the annual financial statements for the 13-month period ended 31 March 2008. For a better understanding of the group's financial position and results of operations, these summarised consolidated results are to be read in conjunction with the group's audited annual financial statements for the year ended 31 March 2009, which include all disclosures required by IFRS, and which are expected to be posted on or about 19 June 2009.
3. As mentioned above, mining revenue of R5.4 million resulted in a gross profit of R3.6 million during the year. After accounting for other income of R0.7 million, administration and other operating expenses of R13.6 million, mining and related costs of R10.1 million (refer note 4), a share appreciation rights expense of R4.1 million, impairment losses of R4.2 million, net finance income of R44.5 million and a taxation charge of R11.9 million, the profit for the year was R4.8 million (basic and headline earnings per share of 3.4 and 6.4 cents respectively). Other income includes sublease income and consulting fees.
4. Administration, other operation, mining and related expenses include (prior period figures included in brackets):
 - » employee benefit costs (excluding the share appreciation rights expense) of R9.0 million (R4.8 million). As at 31 March 2009, the group had ten (nine) permanent employees / contractors;
 - » consulting, legal, audit and professional fees of R5.6 million (R4.1 million). Fees relating to the listing have been netted against share premium;
 - » non-executive directors' fees of R2.2 million (R0.2 million), of which R0.7 million was paid to directors of subsidiary companies;
 - » listing and investor relations costs of R2.0 million (R0.6 million);
 - » head office lease costs of R0.7 million (R0.5 million); and
 - » depreciation charges not included in cost of sales of R0.7 million (R0.4 million).

Note: Mining and related costs mainly include costs recovered from exploration subsidiaries in terms of their management agreements with Keaton Administrative and Technical Services (Pty) Limited, direct consulting fees by mining and exploration contractors and compensation paid to surface right holders. Administration and other operating expenses mainly include costs not recovered from exploration subsidiaries i.e. certain employee benefit costs, non-executive directors' fees, listing and investor relations costs.



5. Income taxation expense comprises current taxation expense of R10.2 million, deferred taxation expense of R0.5 million and a secondary tax on companies of R1.1 million. The company has paid R10.1 million in tax during the year.

6. Earnings / (Loss) per share:

The calculation of basic earnings / (loss) per share is based on the profit / (loss) for the period (attributable to equity holders of the parent) of R4 841 349 (2008 – loss of R4 657 882) and a weighted average of 142 248 143 (2008 - 50 902 474) ordinary shares in issue during the period. As the group was in a loss position at 31 March 2008, the dilutive ordinary shares had no dilutive impact on the basic loss per share for 31 March 2008. An impairment loss of R4.2 million was added back as a reconciling adjustment between the basic and headline earnings per share for the current year.

7. Current assets include:

- » cash of R373.7million (2008: R307.2 million);
- » coal stockpiled of R7.0 million (2008: Rnil);
- » interest receivable of R3.6 million (2008: R2.2 million); and
- » value-added tax recoverable of R1.7 million (2008: R3.6 million).

8. Current liabilities include:

- » amounts payable to exploration service vendors of R1.2 million (2008: R5.7 million);
- » amounts received in advance from coal buyers of R1.8 million (2008: Rnil);
- » other trade payables of R0.9 million (2008: R9.5 million);
- » environmental rehabilitation provisions of R0.6 million (2008: Rnil); and
- » taxation of R2.2 million (2008: R0.9 million).

9. Issuances of equity during the year:

	31 March 2009	31 March 2008
	Number of shares (000)	
Issued share capital		
At beginning of period	132 741	70
Issued for cash during the year (refer commentary)	10 000	129 811
Share-based payments	100	2 860
At end of period	142 841	132 741

Preliminary summarised audited group results *cont.*

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

11. The net asset value per share at 31 March 2009 is 306 cents (2008: 254 cents).

12. 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):

Total assets		
	31 March 2009	31 March 2008
Keaton Mining (Pty) Limited - Sterkfontein Project	23 288	22 107
Keaton Mining (Pty) Limited - Delmas Project	22 672	8 079
Keaton Mining (Pty) Limited - Klip Colliery	16 653	7 340
Amalahle Exploration (Pty) Limited - Projects	1 379	–
Keaton Energy Holdings Limited - Cash resources	375 819	307 236
Total operating segments' assets	439 811	344 762
Assets not allocated to segments	5 538	9 143
	445 349	353 905

Segment revenue		
	1 April 2008 to 31 March 2009	1 March 2007 to 31 March 2008
Keaton Mining (Pty) Limited - Klip Colliery	5 424	–
Keaton Administrative and Technical Services (Pty) Limited	10 033	–
Total operating segments' revenue	15 457	–
Consolidation adjustments	(10 033)	–
	5 424	–

Segment results		
Keaton Energy Holdings Limited * / **	(26 005)	(4 870)
Keaton Administrative and Technical Services (Pty) Limited *	(6 452)	(5 002)
Keaton Mining (Pty) Limited *	(4 859)	(3 249)
Amalahle Exploration (Pty) Limited *	(4 217)	(414)
Other exploration subsidiaries *	(3 946)	(2 093)
Total operating segments' results *	(45 479)	(15 628)
Consolidation adjustments (impairment of investments in subsidiaries)	17 665	2 271
	(27 814)	(13 357)

* Operating loss before net finance income and taxation

** Excludes finance income of R44.7 million

13. The group's capital commitments are: (R'000)

	31 March 2009	31 March 2008
Environmental rehabilitation guarantees issued	1 260	-
Exploration expenditure authorised but not contracted	38 155	36 782
Exploration expenditure authorised and contracted	2 263	5 176

There was no change to the group's contingent liabilities during the year.

14. Post-balance sheet events:

On 7 April 2009 Keaton Energy announced that it had reached agreement on a transaction which, on conclusion, will add 2 844 hectares of prospecting rights to its 4 009 hectare Sterkfontein Project (the acquisition). The acquisition – referred to as the Sterkfontein Extension Prospecting Right – 'fills out' the areas between Sterkfontein's North 2 and South Blocks. The acquisition, which is subject to Ministerial Consent in terms of Section 11 of the MPRDA (The South African Mineral and Petroleum Resources Development Act No. 28 of 2002, as amended), involves Keaton Energy acquiring a 74% interest in Labohlano Trading 46 (Pty) Limited, proposed holder of the Sterkfontein Extension Prospecting Right, from Money Box Investments 156 (Pty) Limited.

15. KPMG Inc's unqualified auditors' reports included in the annual financial statements and in the summarised financial statements contained in this summarised report are available for inspection at the company's registered office.

16. Coal Reserve and Resource Statements

The group has released new and updated Coal Reserve and Resource Statements for its Delmas and Leeuwfontein Projects during the month of May 2009. These are available for inspection on the group's website www.keatonenergy.co.za. There was no change to the Coal Resource Statement at the group's Sterkfontein Project (released May 2008).



Much progress has been made in the period under review. Of the three founding projects, the Klip Colliery (previously the Klipfontein Project) is now in production, the Delmas Project's feasibility study is complete with a Coal Resource and Reserve Statement having been issued, and the Sterkfontein Project has been significantly expanded through corporate action. Progress has also been made on the exploration pipeline, with two prospects being elevated to project status, whilst a number of other prospects are to be relinquished.

Listing and cash position

The company listed on the main board of the JSE on 22 April 2008 by way of an introduction of its ordinary shares. A private placement of 10 million ordinary shares of the company coincided with the listing. These shares were placed at R10 per share - or R100 million in total (before listing expenses of R9.5 million).

The group's total cash position as at 31 March 2009 amounted to R373.7 million. Given the current global economic turmoil, access to both equity and debt markets is becoming increasingly difficult. The Board is therefore applying a conservative approach in the employment of the group's cash resources towards its operations. Cash is also conservatively invested across most of South Africa's highest rated financial institutions.

Safety, health and the environment

The safety and health performance of the group in the period under review has been acceptable with 54 226 hours worked on-site with no lost time injuries recorded. Extensive effort has been made to establish safety monitoring processes and procedures and these are working satisfactorily. The Safety, Health and Environment Committee of the Board has approved a Safety and Health Statement and Policy and its implementation has progressed well.

Corporate governance

The Board was strengthened significantly by the appointment of two additional independent non-executive directors, Ms Zelda Mostert, who brings extensive mining finance skills and experience to the Audit Committee and the Board, and Mr John Wallington, a 27-year veteran mining engineer who was previously CEO of Anglo Coal. Subsequent to the end of the period under review, Ms Mandi Glad was appointed to the Board as the executive director responsible for marketing and business development.

Activities during the year

During the year the group's activities have been focused on the following:

- » **Delmas Project** (Delmas): During the year R14.6 million was capitalised on exploration, feasibility and related costs (R22.7 million to date). A Coal Reserve of 25.9 million tonnes was declared on this project. A decision to develop the mine remains dependent on a number of factors including regulatory approvals and commercial contract negotiations.
- » **Klip Colliery** (Balmoral/Ogies): Apart from acquisition and exploration costs of R7.7 million, a further R3.6 million was capitalised on boxcuts and infrastructure costs, and R1.7 million on deferred stripping costs. The value of the stockpile as at 31 March 2009 was R7.0 million as a result of the coal buyer defaulting on



buying commitments. Alternative buyers were found and coal sales resumed subsequent to year end. Turnover for the period amounted to R5.4 million with a gross profit of R3.6 million.

- » **Sterkfontein Project** (Bethal): Limited work has been done as the group's focus was on the consolidation of the project area. These efforts culminated in the securing of a 74% interest in a 2 844-hectare prospecting right over properties intermingled with the existing 4 009 hectares of prospecting rights. R23.3 million was capitalised on this project to 31 March 2009
- » **Amalahle Prospects** (Ermelo): R3.9 million was capitalised on drilling and related costs to 31 March 2009. A Coal Resource of 0.9 million MTIS has been declared on the Leeuwfontein Project, and preliminary results from the Braamspruit Project are looking promising. The validity of the Braamspruit prospecting right has been challenged by a neighbouring mining company, and further investment in the Braamspruit Project will be dependent on the dispute being resolved in the group's favour. Drilling results for some of the prospects proved neither commercially viable nor technically feasible and an impairment charge of R2.5 million was raised during the year.
- » **Mafra Prospects** (Dundee): The prospects proved to be neither commercially viable nor technically feasible and a charge of R1.5 million was raised as at 31 March 2009 to fully impair all capitalised exploration and evaluation costs.

The prospecting rights that are expected to be granted to Keaton Energy's other subsidiaries, Intshe Coal (Pty) Limited, Rafcoal Mining (Pty) Limited and Izwi Coal (Pty) Limited, have not yet materialised and these subsidiaries are currently treated as being dormant. The total investment in these subsidiaries as at 31 March 2009 amounted to R2.1 million (R1.8 million as at 31 March 2008).

Markets

Keaton Energy has weathered the recent economic storm successfully following its listing and equity capital raising. The company raised a significant amount of capital to build its first major project, making it unlikely that it will need to return to the equity markets or make use of debt markets.

The company's share price performance has been pleasing under difficult market circumstances, with the share having traded at or above the pre-listing issue price for much of the period under review. In contrast, from the date of the company's listing to 31 March 2009 the JSE/FTSE All Share Index declined by 36%, the JSE/FTSE Resources 20 Index by 46% and the Nedsec Junior Mining and Exploration Index by 68%.

Export coal prices have fallen significantly from their July 2008 highs, although they have recovered somewhat since the end of the financial year under review. Domestically, it appears that Eskom's emergency coal purchase programme has seen the power

generator rebuild its power station stockpiles successfully, abetted by the reduced demand for power from major industrial consumers as a direct consequence of the global economic crisis. It is clear, however, that Eskom remains concerned about the long-term security of coal supply to its existing power stations in and adjacent to the Witbank and Highveld coal fields, which bodes well for Keaton Energy's longer term plans.

Strategy

It is against the background of the market events described above that the executive management team fine-tuned the group's strategy. It remains the intention to produce two million tonnes of saleable coal in the medium term, growing into a mid-tier coal producer in the longer term – with this production from greenfields and brownfields projects where Keaton Energy is able to use its intellectual and financial resources to take projects up the value curve, through rapid project development to production. This strategy has been refined, however, and the group will now pursue a two-tiered approach:

- » a limited number of large, long-life, resource-intensive projects such as the Delmas and Sterkfontein Projects; and
- » a portfolio of smaller, quick-to-cash-flow projects such as the Klip Colliery and the Leeuwfontein Project that will provide the group with operational flexibility.

Keaton Energy will continue to endeavour to remain lean, with quick decision-making, keeping overhead and fixed costs to a minimum and making extensive use of outsourcing and contracting.

Looking ahead

The 2009 calendar year should see the long-life Delmas Project turned to account, subject to regulatory approvals and commercial contract negotiations. Bringing the Delmas Project into production remains the focus of the group for the year. Taking the long-life Sterkfontein Project further up the value curve will also receive significant attention, particularly since the project area has now been significantly increased and consolidated.

Operations at the Klip Colliery should cease within the next 12 months with a view to the Leeuwfontein Project and Braamspruit Project coming on stream in 2010 and 2011 respectively. Much work will need to be done on taking Leeuwfontein and Braamspruit through the regulatory processes before mining can be considered. Regulatory work has begun on the Leeuwfontein Project, and will begin on the Braamspruit Project in the second half of 2009.

The group will continue to make prospecting right applications and will also look to partner with existing holders of prospecting and mining rights in order to add further projects to the smaller projects portfolio.

On behalf of the board

David Salter
(Chairman)

Paul Miller
(Managing Director)

28 May 2009

Administration and contact details

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