



Reviewed Interim Group Results

for the six months ended 30 September 2011

Key features

- » 394% increase in HEPS to 8.4 cps
- » 235% increase in revenue to R117.7 million
- » R8.4 million net profit
- » Vanggatfontein Mine:
 - 105% rise in 5-Seam coal production to 99 232 tonnes
 - Eskom contract deliveries initiated
 - 1 million lost time injury-free hours worked



COMMENTARY

Introduction

Keaton Energy has made the transition from explorer and developer to producer in record time. The first exploration borehole was drilled on the Vanggatfontein property in November 2007 and by May 2010 opencast mining had begun, following receipt of regulatory approvals and access having been gained to the surface rights. The first washed 5-Seam coal product was dispatched in December 2010. This has been followed in the period under review with the commissioning of the 4- and 2-Seam plant at what is now the Vanggatfontein Mine and the initiation of coal deliveries to South African power utility Eskom. The Vanggatfontein Mine is expected to produce some 2.4 million tonnes of coal per annum, taking Keaton Energy beyond its medium-term target of producing 2.0 million tonnes of coal per annum and well towards its longer-term target of becoming a mid-tier, 5.0 million tonnes per annum coal producer.

During the period, 99 232 tonnes of 5-Seam coal were sold to customers in the domestic metallurgical and thermal coal market (six months to 30 September 2010: nil; 12 months to 31 March 2011: 48 397 tonnes). Some 230 042 tonnes of thermal coal were sold to Eskom during the period (no sales of 4- and 2-Seam coal in prior periods). These sales resulted in revenue of R117.7 million, up from R35.2 million for the year ended 31 March 2011. While the Vanggatfontein Mine has not yet attained steady-state operations, a net profit of R8.4 million was delivered for the period.

Safety, health and the environment

During the period under review, the Vanggatfontein Mine achieved the milestone of 1 000 000 hours worked without a lost time injury. However, the mine's transition to production has seen a deterioration in safety performance with four lost time injuries. This is viewed seriously by the company and action has been taken to improve safety standards, compliance and management at the mine.

Although no material environmental issues were experienced during the period, particular attention was paid to dust suppression at the Vanggatfontein Mine and the effect of blasting at monitoring sites surrounding the mine. A new dust suppression system is being installed on the 4- and 2-Seam plant and the effect of blasting is expected to be mitigated through improved blast design and the fact that boxcut development is now complete

Cash position

The company has been investing aggressively in the Vanggatfontein Mine, and as at 30 September 2011, had R26.3 million in cash and cash equivalents, down from R190.4 million one year earlier, but not materially different to the R27.0 million at 31 March 2011. This was as a consequence of the securing of a R230.0 million Nedbank Capital project finance facility, of which R204.4 million had been drawn down at the end of the period under review. The Vanggatfontein Mine reached its peak cash draw-down position towards the end of 2011 and is expected to be cash flow-positive thereafter.

Corporate governance

Mr Dirk Jonker was appointed to the Board of Directors as a non-executive director with effect from 31 May 2011. Mr Jonker (60), a Dutch national, is Managing Director of Gunvor International BV and is based in Amsterdam. He is a senior business executive with many years' experience in international commodity trading and processing. Mr Peet Snyders resigned as an executive director of the company with effect from 31 July 2011. Mr Johan Schonfeldt gave notice of his intention to resign his position as Financial Director of Keaton Energy with effect from 30 November 2011. He intends relocating abroad with his family. Mr Jacques Rossouw (36) has been appointed Financial Director Designate and has taken up the position from 1 November 2011. Jacques is a CA(SA), having completed his articles with PricewaterhouseCoopers, and subsequently worked in both the high technology and mining industries, most recently as Manager: Corporate Reporting at Harmony Gold Mining Company Limited.

Ms Mandi Glad, previously Executive Director: Marketing and New Business Development, has assumed responsibility for the company's operations as Executive Director: Operations. She will continue to have responsibility for coal marketing and regulatory matters. The Managing Director will assume the additional responsibility for New Business Development.



Activities during the period

The focus of management in the period has been to ramp up the production of 4- and 2-Seam coal from the Vanggatfontein Mine to meet the contracted off-take to Eskom. The ramp-up to full production of 4- and 2-Seam coal was affected by the failure of a surge bin support structure in the 4- and 2-Seam plant on 27 May 2011. An interim solution had to be found, using mobile conveyors to by-pass the damaged area, and 29 982 tonnes were delivered to Eskom in July 2011. The damage was repaired by the end of July 2011, and 79 494 tonnes were delivered to Eskom in August 2011 and 120 566 tonnes in September 2011.

The failure of the surge bin support structure is now the subject of a dispute resolution process between Keaton Mining (Proprietary) Limited (Keaton Mining) (74% subsidiary of Keaton Energy) and the contractor concerned, DRA Mineral Projects (Proprietary) Limited.

The ramp-up is expected to continue until steady-state production of 175 000 tonnes per month is achieved. The mining contractor will also now move to 24/6 operations to ensure that the required run-of-mine production can be achieved. Steady state rollover mining has begun in the Vanggatfontein Mine's Pit 1, and Pit 2 rollover mining is expected to begin in December 2011.

The production of 5-Seam run-of-mine coal was affected by geological washouts and weathered coal at the boundaries of the coal reserve. The monthly sales target for 5-Seam coal remains 20 000 tonnes.

While the acquisition of a controlling interest in Leeuw Mining and Exploration (Proprietary) Limited (LME) remains dependent on regulatory approval, operations at the Vaalkrantz Colliery have improved dramatically following the support provided by Keaton Energy. Some 205 715 tonnes of anthracite were produced in the period, with 91 374 tonnes exported and 114 341 tonnes sold to domestic customers.

Looking ahead

Keaton Energy continues to make solid strides toward mid-tier producer status. This status will be confirmed with the Vanggatfontein Mine becoming a major earnings contributor. Management's focus on the Vanggatfontein Mine will remain ramping up 4- and 2-Seam production to meet Eskom obligations while maintaining the 5-Seam production profile and market acceptance. Regulatory approval for the acquisition of a controlling stake in LME is expected in the next period, and consolidating LME into the group will also be a priority. Finally, the Sterkfontein and LME's Braakfontein projects will move further up the value curve - Sterkfontein through advancing of the feasibility study and Braakfontein through review of the existing feasibility study.

On behalf of the Board

David Salter

(Chairman)

1 December 2011

Paul Miller

(Managing Director)

Preparation of condensed consolidated financial statements

The condensed consolidated financial statements for the six months ended 30 September 2011 have been reviewed in terms of the Companies Act 71, 2008. Their preparation was supervised by the group financial director, Johan Schonfeldt, a Chartered Accountant (SA).



Condensed consolidated statement of comprehensive income

R'000	Note	Six months ended		Year ended
		30 September 2011 (Reviewed)	30 September 2010 (Reviewed)	31 March 2011 (Audited)
Revenue	2	117 695	–	35 163
Cost of sales		(95 388)	–	(23 095)
Gross profit	2	22 307	–	12 068
Other income		2 902	277	383
Administrative and other operating expenses		(10 337)	(7 618)	(17 412)
Mining and related expenses		(3 553)	(4 708)	(10 924)
Share-based payments		(439)	(856)	(2 191)
Operating profit/(loss)		10 880	(12 905)	(18 076)
Finance income		10 663	11 243	20 193
Finance cost	7	(10 483)	(532)	(1 494)
Profit/(loss) before taxation		11 060	(2 194)	623
Taxation		(2 668)	712	6 574
Net profit/(loss)		8 392	(1 482)	7 197
Other comprehensive income for the period, net of income tax		–	–	–
Total comprehensive income/(loss) for the period		8 392	(1 482)	7 197
<i>Attributable to:</i>				
Owners of the company		14 475	2 509	15 186
Non-controlling interest		(6 083)	(3 991)	(7 989)
Earnings per ordinary share (cents)	3			
– Basic		8.4	1.7	10.3
– Diluted		8.4	1.7	10.3

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



Condensed consolidated statement of financial position

R'000	Note	At 30 September 2011 (Reviewed)	At 31 March 2011 (Audited)	At 30 September 2010 (Reviewed)
Assets				
Non-current assets				
Property, plant and equipment	4	636 067	479 453	234 521
Intangible exploration and evaluation assets		65 092	65 074	65 080
Deferred tax		3 740	6 660	3 952
Long-term financial assets	5	142 834	131 612	-
Restricted cash		13 023	6 280	28 356
Total non-current assets		860 756	689 079	331 909
Current assets				
Inventory		9 502	7 939	-
Trade and other receivables		54 113	47 389	17 959
Restricted cash	7	31 000	12 000	-
Cash and cash equivalents		26 281	27 000	190 383
Total current assets		120 896	94 328	208 342
Total assets		981 652	783 407	540 251
Equity and liabilities				
Share capital and reserves				
Share capital		171	171	145
Share premium		567 718	567 718	449 935
Other reserves		2 834	2 395	1 060
Retained earnings		35 495	21 020	8 343
Total equity attributable to owners of the company		606 218	591 304	459 483
Non-controlling interest		(15 840)	(9 757)	(5 759)
Total equity		590 378	581 547	453 724
Non-current liabilities				
Provisions	6	77 520	46 053	23 005
Borrowings	7	188 041	-	-
Total non-current liabilities		265 561	46 053	23 005
Current liabilities				
Borrowings	7	19 075	-	-
Trade and other payables		106 271	154 872	49 595
Provisions		326	326	8 326
Taxation		41	609	5 601
Total current liabilities		125 713	155 807	63 522
Total equity and liabilities		981 652	783 407	540 251

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

Condensed consolidated statement of changes in equity

for the six months ended 30 September 2011 - Reviewed

R'000	Share capital	Share premium	Share-based payment reserve	Retained earnings	Total equity attributable to owners of the company	Non-controlling interest	Total equity
Balance at 31 March 2011	171	567 718	2 395	21 020	591 304	(9 757)	581 547
Total comprehensive income for the period	-	-	-	14 475	14 475	(6 083)	8 392
Share-based payments	-	-	439	-	439	-	439
Balance at 30 September 2011	171	567 718	2 834	35 495	606 218	(15 840)	590 378
Balance at 31 March 2010	145	449 935	204	5 834	456 118	(1 768)	454 350
Total comprehensive loss for the period	-	-	-	2 509	2 509	(3 991)	(1 482)
Share-based payments	-	-	856	-	856	-	856
Balance at 30 September 2010	145	449 935	1 060	8 343	459 483	(5 759)	453 724

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

Condensed consolidated statement of cash flows

R'000	Six months ended		Year ended
	30 September 2011 (Reviewed)	30 September 2010 (Reviewed)	31 March 2011 (Audited)
Cash flows from operating activities	39 787	(12 883)	2 976
Cash flows from investing activities	(242 099)	(131 815)	(368 261)
Cash flows from financing activities	201 593	-	57 205
Net decrease in cash and cash equivalents	(719)	(144 698)	(308 080)
Cash and cash equivalents at the beginning of the period	27 000	335 081	335 080
Cash and cash equivalents at the end of the period	26 281	190 383	27 000

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

Notes to the condensed consolidated financial statements

1. Accounting policies

Basis of accounting

The condensed consolidated financial statements for the six months ended 30 September 2011 have been prepared in accordance with the recognition, measurement, presentation and disclosure requirements of IAS 34: Interim Financial Reporting and are presented in accordance with the South African Companies Act and the AC 500 standards as issued by the Accounting Practices Board. They should be read in conjunction with the annual financial statements for the year ended 31 March 2011, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). The accounting policies applied are consistent with those applied in the annual financial statements.

2. Revenue and gross profit / margin

The group sold 99 232 metric tonnes of 5-Seam coal from its Mpumalanga-based Vanggatfontein Mine into the domestic metallurgical market in the six months ended 30 September 2011 (30 September 2010: nil and year ended 31 March 2011: 48 397 metric tonnes). Deliveries of thermal coal to Eskom for the six months ended 30 September 2011 amounted to 230 042 metric tonnes (no deliveries in prior periods).

The group achieved a gross profit of R22.3 million or 19% of sales for the period ended 30 September 2011 (30 September 2010: Rnil and year ended 31 March 2011: R12.1 million or 34%). The decrease in gross margin is as a result of the product mix, which weighed more towards thermal coal during the current period.

3. Earnings and net asset value per share

The calculation of basic and diluted earnings per share is based on a profit for the period ended 30 September 2011 (attributable to owners of the company) of R14.5 million (30 September 2010: R2.5 million and year ended 31 March 2011: R15.2 million) and a weighted average number of shares in issue during the period of 171 547 644 (30 September 2010: 144 841 293 and the year ended 31 March 2011: 148 102 328).

	Six months ended		Year ended
	30 September 2011 (Reviewed)	30 September 2010 (Reviewed)	31 March 2011 (Audited)
Total earnings per ordinary share (cents)			
Basic earnings	8.4	1.7	10.3
Diluted earnings	8.4	1.7	10.3
Headline earnings	8.4	1.7	10.3
Diluted headline earnings	8.4	1.7	10.3
Reconciliation of headline earnings:			
Net profit attributable to owners of the company	14 475	2 509	15 186
Headline earnings for the period	14 475	2 509	15 186

	At	At	At
	30 September 2011 (Reviewed)	31 March 2011 (Audited)	30 September 2010 (Reviewed)
Net asset value per share (cents)			
Number of shares in issue	171 547 644	171 547 644	144 841 293
Net asset value per share	344	339	313

Notes to the condensed consolidated financial statements cont.

4. Property, plant and equipment

The increase of R156.6 million from 31 March 2011 is mainly as a result of capital investments at the Vanggatfontein Mine. These include boxcut developments (R102.2 million), mine infrastructure development (R34.8 million), ramp-up costs (R11.4 million) and an increase in rehabilitation assets as a result of an increase in rehabilitation liabilities (R29.7 million). These have been offset by depreciation charges of R27.3 million.

5. Long-term financial assets

In terms of the refinancing agreements entered into between Keaton Energy and LME during the 31 March 2011 financial year, the group advanced a further loan of R8.0 million to LME during the period, whilst LME repaid R5.3 million on these loans. Interest accrued on the LME loans amounted to R8.3 million (30 September 2010: Rnil and the year ended 31 March 2011: R5.4 million).

6. Non-current provisions

The rehabilitation liability at the Vanggatfontein Mine increased by R29.7 million during the period, whilst the previously recognised rehabilitation liability unwound with R2.0 million during the period.

7. Borrowings

On 1 April 2011 Keaton Mining entered into a project financing facility with Nedbank Limited to the value of R230.0 million and a further standby debt facility of R25.0 million. The facility attracts interest at Jibar plus 5% and is repayable in sculptured quarterly payments commencing 30 June 2012 and ending 31 March 2017. Various guarantees, representations, warranties, undertakings, indemnities and pledges, normal to project financing arrangements, have been given by both Keaton Mining and the company (as guarantor). As at 30 September 2011 draw-downs to the value of R204.4 million have been made, whilst interest of R10.9 million has been accrued. These were offset by unamortised transaction costs amounting to R8.2 million. As at 30 September 2011 the group was in compliance with all project finance covenants related to the Vanggatfontein Mine.

As part of the project finance covering security arrangement the company had to restrict R50.0 million of its cash as a standby equity deposit in favour of the Vanggatfontein Mine. R31.0 million of this deposit had been invested in the project by 30 September 2011. The increase in the current restricted cash balance of R19.0 million is attributable to the remaining amount of the standby equity.

8. Commitments and contingencies

The group's capital commitments are:

R'000	At 30 September 2011 (Reviewed)	At 31 March 2011 (Audited)	At 30 September 2010 (Reviewed)
Exploration and mine development expenditure authorised and contracted	1 049	42 118	160 083
Exploration and mine development expenditure authorised but not contracted	32 257	42 219	109 170
	33 306	84 337	269 253

All contracted amounts will be funded both through existing funding mechanisms within the group and external debt finance for Vanggatfontein. For a detailed disclosure on contingent liabilities refer to Keaton Energy's annual report for the year ended 31 March 2011, available on the group's website at www.keatonenergy.co.za. Further rehabilitation guarantees to the value of R16.0 million were issued during the period, as well as a R3.5 million payment guarantee in favour of the electricity provider. Subsequent to 30 September 2011 a net R10.0 million of existing payment guarantees expired and the related restricted cash released.



9. Subsequent events

Refer changes to the board of directors discussed under the commentary. Apart from these changes and the released guarantees disclosed in note 8 above there were no other significant events after 30 September 2011 up to the date of this report.

10. Dividends

No dividends have been declared nor are any proposed for the period ended 30 September 2011 (30 September 2010: Rnil and the year ended 31 March 2011: Rnil).

11. Coal reserve and resource statement

The Vanggatfontein Mine coal reserve has been reduced by 0.2 million tonnes of metallurgical coal and 0.5 million tonnes of thermal coal mined during the period. There were no further changes to the previously reported Sterkfontein and Leeuwfontein resource statements.

12. Review report

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.



Segment report

for the six months ended 30 September 2011

R'000	Revenue		Operating profit/(loss) before depreciation/amortisation		Depreciation/amortisation	
	6 months ended 30 Sep 2011	6 months ended 30 Sep 2010	6 months ended 30 Sep 2011	6 months ended 30 Sep 2010	6 months ended 30 Sep 2011	6 months ended 30 Sep 2010
Vanggatfontein Mine ¹	117 695	-	45 495	(5 626)	(27 137)	-
Sterkfontein Project	-	-	-	(429)	-	-
Klip Colliery	-	-	-	-	-	-
Keaton Energy Holdings Limited ²	2 129	-	(7 251)	(5 660)	-	-
Keaton Administrative and Technical Services (Proprietary) Limited ²	4 095	5 175	(1 053)	(62)	(153)	(310)
Other segments ³	-	-	870	(273)	-	-
<i>Reconciliation to statements of comprehensive income and financial position</i>						
Intersegment and other consolidation adjustments	(6 224)	(5 175)	109	(545)	-	-
Assets/liabilities not allocated to segments						
Totals per statements of comprehensive income and financial position	117 695	-	38 170	(12 595)	(27 290)	(310)

¹ Revenue represents sales to external customers only

² Revenue represents intersegment sales only

³ Include the subsidiaries Amalahle Exploration (Proprietary) Limited and Labohlano Trading 46 (Proprietary) Limited





Net finance income/(expense)		Net profit/(loss) before taxation		Segment assets		Segment liabilities	
6 months ended 30 Sep 2011	6 months ended 30 Sep 2010	6 months ended 30 Sep 2011	6 months ended 30 Sep 2010	At 30 Sep 2011	At 30 Sep 2010	At 30 Sep 2011	At 30 Sep 2010
(39 761)	(12 533)	(21 403)	(18 159)	729 945	277 801	803 004	318 521
-	(713)	-	(1 142)	65 426	65 080	55 476	46 870
-	-	-	-	1 849	1 339	331	326
42 460	10 977	35 209	5 317	605 973	480 362	2 625	3 737
4	4	(1 202)	(368)	3 778	-	13 549	11 038
(899)	374	(29)	101	1 072	-	16 576	10 295
(1 624)	12 602	(1 515)	12 057	(453 902)	(289 334)	(511 116)	(312 709)
				27 511	5 003	10 829	8 449
180	10 711	11 060	(2 194)	981 652	540 251	391 274	86 527





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