

WESCOAL HOLDINGS LIMITED

Incorporated in the Republic of South Africa

(Registration number 2005/006913/06)

Share code: WSL

ISIN: ZAE000069639

("Wescoal")

KEATON ENERGY HOLDINGS LIMITED

Incorporated in the Republic of South Africa

(Registration number 2006/011090/06)

Share code: KEH

ISIN: ZAE000117420

("Keaton Energy")

JOINT ANNOUNCEMENT – *PRO FORMA* FINANCIAL EFFECTS RELATING TO THE FIRM INTENTION OFFER BY WESCOAL TO ACQUIRE ALL OF THE ISSUED ORDINARY SHARE CAPITAL OF KEATON ENERGY EXTENSION OF THE POSTING PERIODS FOR THE CIRCULARS WITHDRAWAL OF CAUTIONARY ANNOUNCEMENTS

1. Introduction

Wescoal and Keaton Energy shareholders are referred to the joint firm intention offer announcement ("**Firm Intention Announcement**") published by Wescoal and Keaton Energy on 2 February 2017. Unless defined in this announcement or if the context dictates otherwise, capitalised terms used in this announcement have the same meanings as given in the Firm Intention Announcement.

As stated in the Firm Intention Announcement, the *pro forma* financial effects of (i) the Proposed Transaction on Wescoal, and (ii) the Scheme on Keaton Energy Shareholders (collectively, the "**Pro Forma Financial Effects**"), were not available at the time of publication of such announcement. Set out below are the *Pro Forma* Financial Effects.

2. *Pro forma* financial effects

2.1 Wescoal *pro forma* financial effects

The table below sets out the *pro forma* financial effects of the Proposed Transaction on the published unaudited condensed consolidated interim results of Wescoal for the six months ended 30 September 2016 ("**Wescoal's Interim Results**"), after accounting for the recently concluded BEE transaction (comprising of a specific issue of Wescoal Shares for cash and the subscription by Wescoal for Class B Preference Shares in the BEE vehicle, "**BEE SPV**") ("**BEE Transaction**") for an effective holding of 59% in the total issued share capital of Wescoal. The *pro forma* financial effects have been prepared for illustrative purposes only and because of their *pro forma* nature, may not fairly present Wescoal's

financial position, changes in equity, results of operations or cash flows, nor the effect and impact of the BEE Transaction and the Proposed Transaction going forward.

The *pro forma* financial effects have been prepared using accounting policies that comply with International Financial Reporting Standards (“IFRS”) and that are consistent with those applied in the published audited consolidated financial results of Wescoal for the year ended 31 March 2016. The *pro forma* financial effects are presented in accordance with the JSE Listings Requirements and the Guide on Pro Forma Financial Information issued by the South African Institute of Chartered Accountants and ISAE 3420: Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus.

The Wescoal Directors are responsible for the compilation, contents and preparation of the Wescoal *pro forma* financial effects. Their responsibility includes determining that the Wescoal *pro forma* financial effects have been properly compiled on the basis stated, which is consistent with the accounting policies of Wescoal and that the *pro forma* adjustments are appropriate for purposes of the *pro forma* financial information disclosed pursuant to the JSE Listings Requirements.

| Per Wescoal Share (cents) | Before the BEE Transaction ⁽¹⁾ | <i>Pro forma</i> after the BEE Transaction (before the Proposed Transaction) ⁽²⁾ | Percentage change from ⁽¹⁾ to ⁽²⁾ (%) | <i>Pro forma</i> after the Proposed Transaction ⁽³⁾ | Percentage change from ⁽²⁾ to ⁽³⁾ (%) |
|---|---|---|---|--|---|
| Basic earnings per Wescoal Share | 27.56 | (3.74) | (113.6%) | (9.23) | (146.8%) |
| Diluted earnings per Wescoal Share | 27.54 | (3.74) | (113.6%) | (9.23) | (146.8%) |
| Headline earnings per Wescoal Share | 27.83 | (3.57) | (112.8%) | (9.10) | (154.9%) |
| Diluted headline earnings per Wescoal Share | 27.81 | (3.57) | (112.8%) | (9.10) | (154.9%) |
| Net asset value per Wescoal Share | 190.40 | 180.55 | (5.2%) | 183.26 | 1.5% |
| Net tangible asset value per Wescoal Share | 147.49 | 152.96 | 3.7% | 152.32 | (0.4%) |
| Weighted average number of Wescoal Shares in issue ('000) | 224,913 | 349,908 | | 437,506 | |
| Weighted diluted number of Wescoal Shares in issue ('000) | 225,084 | 350,079 | | 437,677 | |
| Number of Wescoal Shares in issue ('000) | 225,030 | 350,025 | | 437,623 | |

Notes and assumptions:

1. The Wescoal information reflected in the "Before the BEE Transaction" column has been extracted from Wescoal's Interim Results.

BEE Transaction

2. The Wescoal information reflected in the "*Pro forma* after the BEE Transaction (before the Proposed Transaction)" column has been calculated on the basis that the BEE Transaction has been implemented. The effects on basic earnings, diluted earnings, headline earnings and diluted headline earnings per Wescoal Share are calculated on the basis that the BEE Transaction was effective 1 April 2016, while the effects on the net asset value and net tangible asset value per Wescoal Share are calculated on the basis that the BEE Transaction was effective 30 September 2016.
 - a. The price at which the Wescoal Shares subscribed for by the BEE SPV was at a discount to the Wescoal Share price on 19 December 2016 (the effective date of the BEE Transaction). The "BEE discount" amounts to R82.3 million (with no tax effect) and is expensed in terms of IFRS 2: Share Based Payments. This charge represents the main reason for the reduction in *pro forma* earnings (equating to a reduction in earnings per Wescoal Share of 23.5 cents).
 - b. The subscription by Wescoal for Class B Preference Shares in the BEE SPV is accounted for as a non-current receivable.
 - c. The net proceeds from the BEE Transaction have initially been placed within existing short-term debt facilities until drawn down over a period of time for purposes of the intended use, including the funding of the Proposed Transaction as described in note 3.c. below. The assumed interest saving has been limited to, and is based on, the actual interest incurred on short-term debt facilities during the six months ended 30 September 2016.
 - d. Transaction costs (non-recurring) of R7.9 million relating to the BEE Transaction were capitalised to equity.

Proposed Transaction

3. The Wescoal information reflected in the "*Pro forma* after the Proposed Transaction" column has been calculated on the basis that the Proposed Transaction has been implemented and that the Scheme and the Comparable Offer become operative and unconditional. The effects on basic earnings, diluted earnings, headline earnings and diluted headline earnings per Wescoal Share are calculated on the basis that the Proposed Transaction was effective 1 April 2016, while the effects on the net asset value and net tangible asset value per Wescoal Share are calculated on the basis that the Proposed Transaction was effective 30 September 2016.

- a. The acquisition of Keaton Energy arising pursuant to the Proposed Transaction, including the Scheme and the Comparable Offer, is accounted for in terms of IFRS 3 (revised): Business Combinations, and consequently the results of Keaton Energy will be consolidated by Wescoal from the effective date of the Proposed Transaction when the Scheme and the Comparable Offer become operative and unconditional.
- b. The financial information for Keaton Energy is based on the reviewed condensed interim consolidated results for the six months ended 30 September 2016 (“**Keaton Energy’s Interim Results**”), adjusted for discontinued operations, assets held for sale, once-off management severance payments as well as expensing exploration and evaluation expenditure in order to align with Wescoal’s accounting policies.
- c. The assumed purchase consideration (which includes the impact of the Comparable Offer for accounting purposes) is settled as follows:
 - Share Component: the issue of 87 598 277 Consideration Shares at an assumed price of R2.51 per Consideration Share, being the share price of Wescoal on 1 February 2017, being the last practicable date prior to the Firm Intention Announcement (the assumed price of the Consideration Shares will be determined on the effective date of the Proposed Transaction and may differ from the assumptions underlying these *pro forma* effects).
 - Cash Component and the Comparable Offer: the Cash Component and the Comparable Offer will be funded through a combination of internal cash resources, debt facilities and the net proceeds from the BEE Transaction.
- d. The assumed purchase consideration for the Proposed Transaction has been assumed to be allocated between identifiable tangible and intangible assets and goodwill based on a provisional fair value allocation exercise in terms of IFRS3: Business Combinations. The identifiable tangible and intangible assets are assumed to be amortised over their respective useful lives as determined within the provisional fair value allocation exercise. The fair value exercise will need to be performed on the effective date of the Proposed Transaction and may differ from the assumptions underlying these *pro forma* effects.
- e. The assumed impact on net finance costs (totalling R20.1 million) has been calculated based on:
 - actual interest rates on short-term debt facilities (prime plus 0.5%, being 11.0%); and
 - cash placed on call (average rate of 7.53%) over six months, assuming the Cash Component and the Comparable Offer will be funded through a combination of internal cash resources, debt facilities and the net proceeds from the BEE Transaction.
- f. Transaction costs (non-recurring) of R38.7 million relating to the Proposed Transaction have been allocated as follows:
 - R34.4 million has been expensed (equating to a reduction in earnings per Wescoal Share of 7.9 cents); and

- R4.3 million has been capitalised to equity.
- g. The assumed impact on net finance cost (as described in note 3.e above) together with the impact of transaction costs (as described in note 3.f above) represent the main reasons for the reduction in *pro forma* earnings.

2.2 Keaton Energy *pro forma* financial effects

The summary *pro forma* financial effects of the Proposed Transaction on Keaton Energy Shareholders, for which the Keaton Energy Independent Board is responsible, are provided for illustrative purposes only to provide information about how the Proposed Transaction will affect the financial position of Keaton Energy Shareholders.

Keaton Energy's Interim Results have been consolidated into Wescoal's Interim Results (refer to the table in 2.1 above) in order to produce *pro forma* financial information of the consolidated group ("**Consolidated Group**") after implementation of the Proposed Transaction.

The *pro forma* financial effects on Keaton Energy Shareholders have been derived by multiplying the *pro forma* financial information of the Consolidated Group by the Switch Ratio applicable to the Share Component of the Offer Consideration, being 0.3 of a Wescoal Share for every one Keaton Energy Share held by Keaton Energy Shareholders. In order for a Keaton Energy Shareholder to assess the financial impact of the Proposed Transaction compared to their current Keaton Energy shareholding, the effect on (i) basic and diluted earnings per Keaton Energy Share and headline and diluted headline earnings per Keaton Energy Share of the Keaton Energy Shares exchanged for the Offer Consideration, and (ii) net asset value per Keaton Energy Share and net tangible asset value per Keaton Energy Share have been illustrated below.

The *pro forma* financial information of the Consolidated Group has been prepared in accordance with IFRS and Wescoal's accounting policies. The *pro forma* financial information of the Consolidated Group has been prepared on the assumption that the Proposed Transaction became effective on 1 April 2016 for the statement of comprehensive income and 30 September 2016 in respect of the statement of financial position.

Because of their nature, the *pro forma* financial effects may not give a fair presentation of Keaton Energy Shareholders' financial position and performance after the Proposed Transaction has been implemented.

| | Before the Proposed Transaction (note 1) | After the Proposed Transaction (notes 3, 4 and 5) | Percentage change (%) |
|---|--|---|--------------------------|
| Earnings per Keaton Energy Share (cents) | 7.1 | (2.77) | (139.0%) |
| Diluted earnings per Keaton Energy Share (cents) | 7.1 | (2.77) | (139.0%) |
| Headline earnings per Keaton Energy Share (cents) | 7.1 | (2.73) | (138.5%) |
| Diluted headline earnings per Keaton Energy Share (cents) | 7.1 | (2.73) | (138.5%) |
| Net asset value per Keaton Energy Share (cents) (note 2) | 158 | 56.18 | (64.4%) |
| Net tangible asset value per Keaton Energy Share (cents) (note 2) | 158 | 46.89 | (70.3%) |
| Weighted average number of shares in issue ('000) | 291,994 | 437,506 | |
| Weighted diluted number of shares in issue ('000) | 292,423 | 437,677 | |
| Number of shares in issue ('000) | 291,994 | 437,623 | |

Notes:

1. The financial information in the "Before the Proposed Transaction" column has been extracted without adjustment from Keaton Energy's Interim Results, except as discussed in note 2 below.
2. Keaton Energy's Interim Results have been adjusted as follows:
 - a. Net asset value per Keaton Energy Share and net tangible asset value per Keaton Energy Share have been calculated using net asset value and net tangible asset value attributable to the owners of the company whereas Keaton Energy's Interim Results used the total net asset value i.e. including minority interests. The amount published was adjusted in order to be consistent with Wescoal's accounting policy of only using the value attributable to the owners of the company and in order to show the effect of the Proposed Transaction on a Keaton Energy Shareholder.
 - b. Intangible assets as disclosed in Keaton Energy's Interim Results have been reclassified to tangible assets (Property, plant and equipment) in order to align with Wescoal's accounting policy.

3. For the purposes of calculating the "After the Proposed Transaction" *pro forma* earnings, diluted earnings, headline earnings and diluted headline earnings per Keaton Energy Share, net asset value and net tangible asset value per Keaton Energy Share and the effect thereof on a Keaton Energy Shareholder, it was assumed that:
 - a. The Proposed Transaction became effective on 1 April 2016 for purposes of the statement of comprehensive income and on 30 September 2016 for purposes of the statement of financial position, which collectively comprises the *pro forma* financial information of the Consolidated Group set out in the table in 2.1 above.
 - b. The *pro forma* financial effects on the Keaton Energy Shareholders, have been derived by multiplying the *pro forma* financial information of the Consolidated Group (set out in the table in 2.1 above) by the Switch Ratio applicable to the Share Component of the Offer Consideration, being 0.3 of a Wescoal Share for every one Keaton Energy Share held by Keaton Energy Shareholders.
 - c. The *pro forma* financial effects on the Keaton Energy Shareholders have been derived by taking into consideration the Cash Component of the Offer Consideration, being R1.20 per Keaton Energy Share.
4. The weighted average number of shares in issue and the number of shares in issue is representative of the issued share capital of Wescoal after the implementation of the Proposed Transaction.
5. All adjustments, with the exception of transaction costs and the severance arrangements relating to Keaton Energy executives, are expected to have a continuing impact on the statement of comprehensive income.

3. Extension of the posting periods for the Wescoal Circular and the Scheme Circular

3.1 Wescoal Circular

In terms of paragraph 9.20(b) of the JSE Listings Requirements, the Wescoal Circular must be posted to Wescoal Shareholders within 60 days from the date of publication of the Firm Intention Announcement. The aforementioned 60 day period will expire on Monday, 3 April 2017, for purposes of the Proposed Transaction. In terms of paragraph 9.20(b) of the JSE Listings Requirements, the "JSE may, in its sole discretion, extend this period provided there is sufficient justification to do so". Upon application to the JSE, the JSE has granted an extension to the aforementioned posting period, allowing the Wescoal Circular to be posted on or before 28 April 2017.

3.2 Scheme Circular

In terms of regulation 102(2)(a) of the Companies Regulations, the Scheme Circular must be posted

within (i) 20 business days after the date of publication of the Firm Intention Announcement, or (ii) such longer period allowed by the Executive Director, on good cause shown. Upon application to the TRP (“**TRP Application Letter**”), the Executive Director has granted an extension to the aforementioned posting period (“**TRP Extension**”), allowing the Scheme Circular to be posted on or before 28 April 2017.

The TRP is of the view that, taking into consideration the reasons provided in the TRP Application Letter and section 119(6)(c) of the Companies Act, granting the TRP Extension is reasonable and justifiable in the circumstances having regard to the principles and purposes of Parts B and C of the Companies Act and Takeover Regulations.

The TRP Extension has been provided by the TRP without considering the views of any other person who may have an interest in the Proposed Transaction taking into consideration regulation 118(4) of the Companies Regulations. Accordingly, it does not affect the rights and interests of such persons, and such persons may approach the TRP or the Takeover Special Committee and request a hearing in terms of the procedures laid out in the Companies Act relating to affected transactions, and the Companies Regulations.

4. Withdrawal of cautionary announcements

Following the publication of the *Pro Forma* Financial Effects, the cautionary announcements published by (i) Keaton Energy on 24 November 2016, 11 January 2017 and 2 February 2017, and (ii) Wescoal on 2 February 2017, are hereby withdrawn and caution is no longer required to be exercised by Keaton Energy Shareholders and Wescoal Shareholders when dealing in their respective shares.

5. Keaton Energy responsibility statement

The Keaton Energy Independent Board accepts responsibility for the information contained in this announcement to the extent that it relates to Keaton Energy. To the best of their knowledge and belief, the information contained in this announcement is true and nothing has been omitted which is likely to affect the importance of the information.

6. Wescoal responsibility statement

The Wescoal Board accepts responsibility for the information contained in this announcement to the extent that it relates to Wescoal. To the best of their knowledge and belief, the information contained in this announcement is true and nothing has been omitted which is likely to affect the importance of the information.

Johannesburg
23 February 2017

Corporate Advisor and Sponsor to Wescoal

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