
SacOil Holdings Limited

# ANNUAL REPORT FEBRUARY 2011

AFRICAN INDEPENDENT UPSTREAM OIL & GAS COMPANY

SacOil is an African independent upstream company based in South Africa. SacOil is dual listed on the JSE (Share code: SCL) and AIM (Share code: SAC).

SacOil's vision is to build a balanced portfolio upstream oil and gas business with interests in all phases of the cycle (high impact exploration, appraisal and production) coupled with a uniquely African footprint.

SacOil has an ambitious acquisition-led growth strategy and is well positioned to exploit its foothold in Africa.

SacOil

SacOil Holdings Limited

## ANNUAL REPORT 2011

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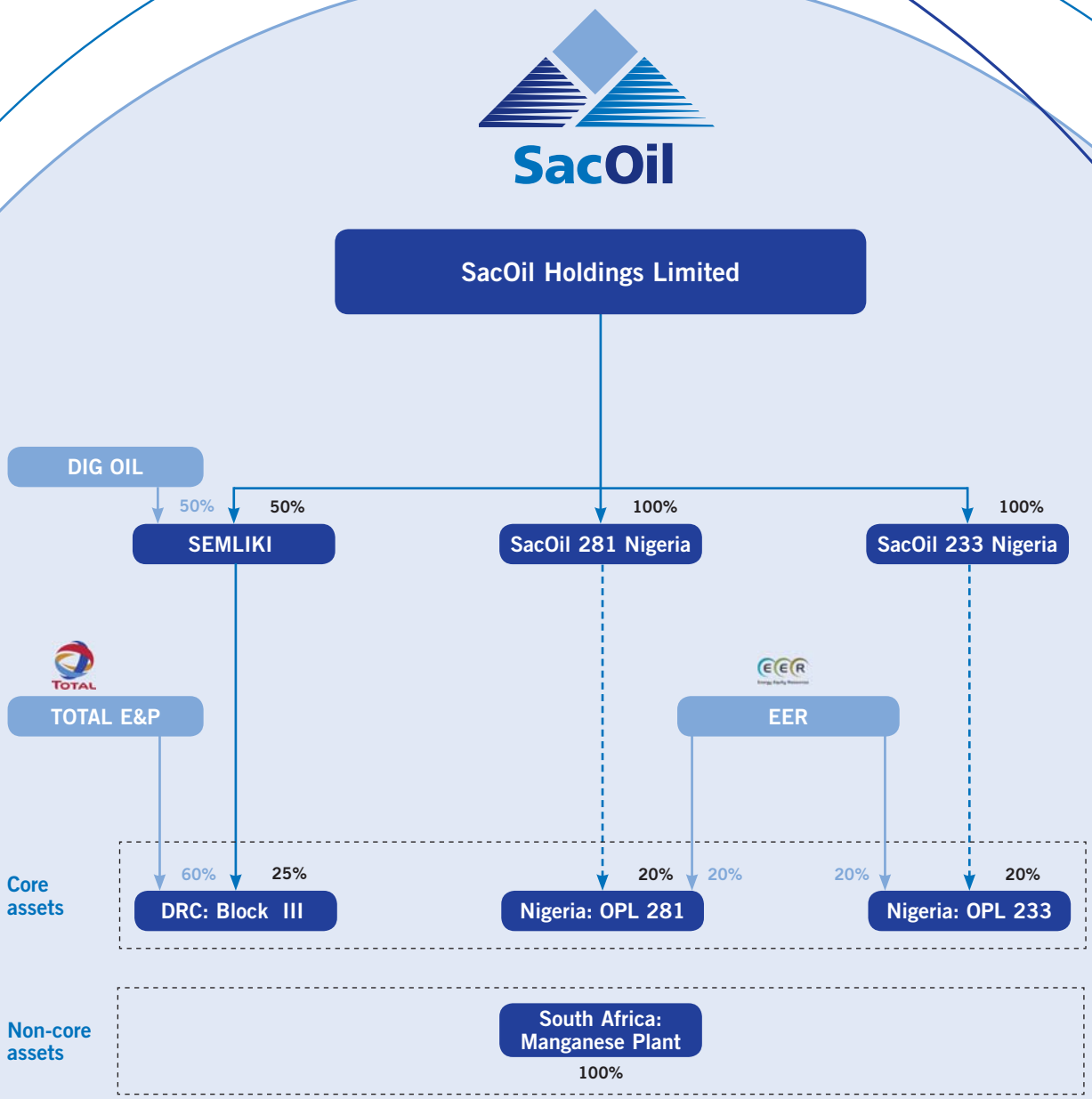
# Capital structure

| | |
|---|---|
| **Shares in issue*** | 683 929 202 |
| **Key shareholders*** | Encha Group (Incl: Associates) 35,99%<br>Metropolitan Asset Managers[1] 13,35%<br>Investec Private Bank[1] 6,81%<br>Public Investment Corporation[1] 6,82%<br>Management 2,99%<br><br>[1] – SA Institutional Investors |
| **Options in issue** | 63 338 788 |
| **Tickets** | SAC (AIM), SCL (JSE), SCL SJ (Bloomberg) |
| **Current share price**** | ZAR0,69 (GBP0,06) |
| **Current market capitalisation**** | ZAR471,91m (GBP41,04m) |
| **Average daily trading volume (for 3 months***)** | 2,69m |
| **Debt** | No debt or encumbrances (Facility available to Company: £3,7 million) |

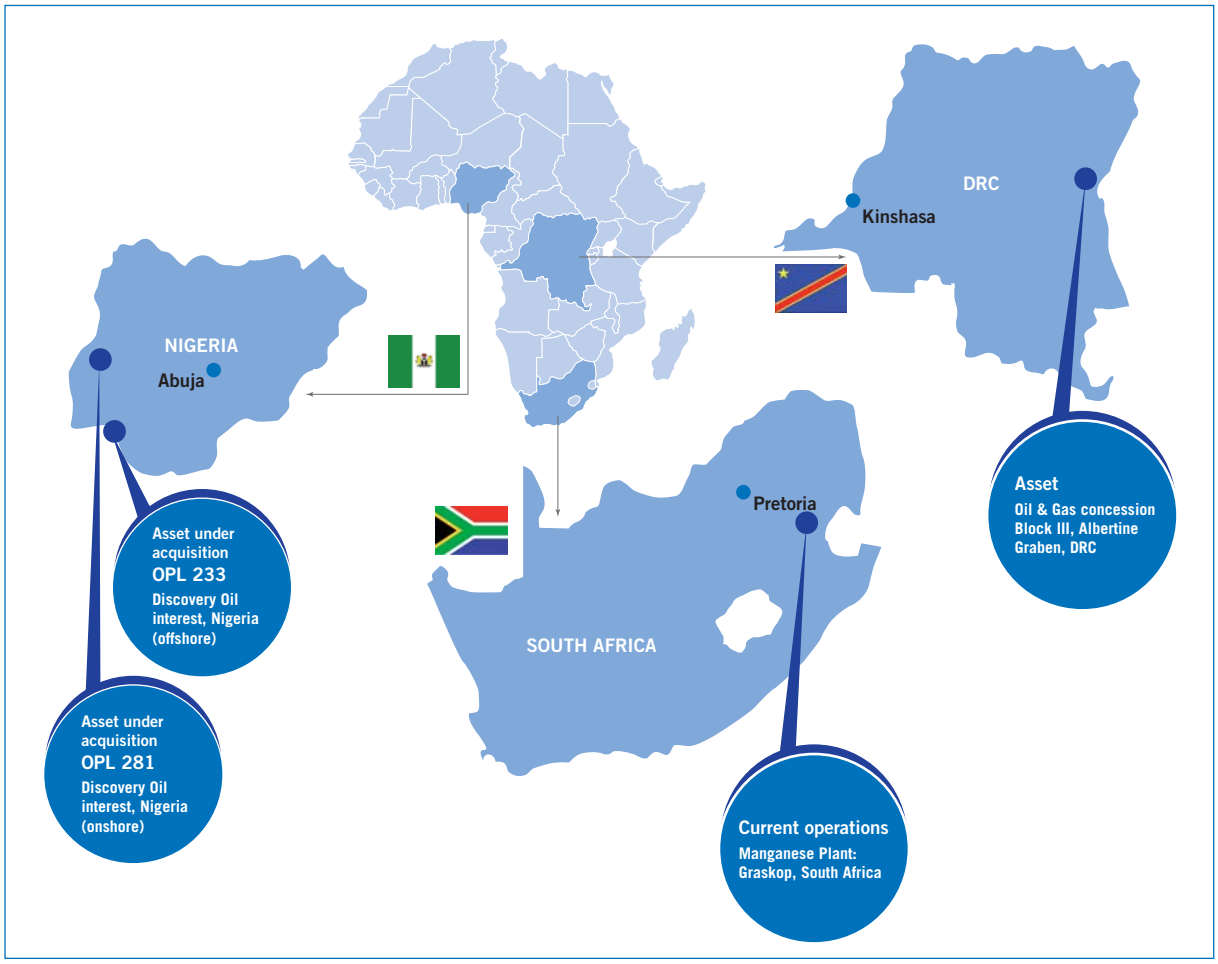
* *as of 12 August, 2011*
** *as of 16 August, 2011 Source: Sharenet*
*** *as of 15 August, 2011 Source I-Net*

# Group interests




AFRICAN INDEPENDENT UPSTREAM OIL & GAS COMPANY

# Company profile




SacOil Holdings is a dual listed company, on the main board of the JSE and on the AIM market of the LSE. SacOil's vision is to become a leading independent African upstream oil and gas business with a balanced portfolio of assets. The Company currently has interests and prospective interests in oilfields in Nigeria and the DRC and a non-core manganese plant in South Africa.

SacOil focuses on opportunities within proven hydrocarbon basins, across the Exploration & Production spectrum from appraisal to near term production through to potentially "High Impact" exploration prospects.

SacOil intends to initially progress work on all its interests: from appraisal interests through to near term production in consortiums with global major oil and gas companies with extensive experience in Africa. The focus on establishing strategic industry partnerships will enable the Company to manage portfolio risk and ensure that the optimum technical and operating skills are applied to each opportunity.

SacOil has a highly experienced board and a strong management team with significant experience in oil & gas exploration and development.

# Chairman's report


**Richard Linnell**
**Chairman**

*With Africa predicted to contribute 20 per cent of the world's oil by 2020, SacOil is intent on being a leading independent upstream oil and gas company, with a balanced portfolio of African assets. We are driving an aggressive strategy to fulfil this vision. To be more precise, we are positioning ourselves, with our competitive advantage at the point of entry, to be a key contributor to bringing this aspiration to reality. Our current world-class exploration acreage in the DRC and near production acreage in Nigeria is a testimony to our access credentials and relentless efforts towards building a sustainable and significant oil and gas business.*

Complementing these efforts, we embarked on a strategic move by pursuing a secondary listing on the AIM market of the LSE in April 2011. The main purpose was to have our acreage properly analysed alongside our peers, in markets that understand oil and gas, particularly African oil and gas operations. We also sought to raise our profile with the medium-term goal of raising capital to fund and support SacOil's strategy that includes the acquisition of production assets.

AIM remains the largest capital market for junior oil and gas companies, raising some US$6 billion of equity for the same in 2010. This compares with the next largest capital market which raised less than a fifth of this for the same sector profile. Though we have had a difficult start to trading on AIM, I remain confident that in the fullness of time the listing of the Company on AIM at this juncture will be beneficiated.

Driving SacOil's business up the value chain is a competent Board and an executive team that possess extensive entrepreneurial/deal making skills and experience backed by excellent oil and gas industry credentials. The talent we have within SacOil is a critical component underpinning the Company's vision of not just becoming an exploration company but a distinguished oil producing player in Africa with roots in South Africa. The skills set within SacOil (which will continue to be augmented) is geared towards ensuring that our shareholders' stakes are invested competently and that the execution of on-going projects yields impressive returns.

Adding to the skills and expertise of the group are two new additions to the management team and board. We welcome Mr. Bradley Cerff as our Vice President and Messrs. John Bentley and Bill Guest as non-executive directors to the board. All the individuals bring to SacOil extensive experience in the upstream space of the oil and gas industry.

In closing, I would like to thank my fellow members of the Board, the management team, CEO Mr. Robin Vela, and our employees and all other relevant shareholders who have assisted us during the financial year. I look forward to a fruitful year ahead.

**Richard Linnell**
Chairman

24 August 2011

AFRICAN INDEPENDENT UPSTREAM OIL & GAS COMPANY

# Chief executive officer's report


**Robin Vela**
**Chief Executive Officer**

*The Group has seen numerous corporate actions and milestones during the period under review including perfection of its title to Block III, its investments into Nigeria, its listing on the AIM market of the LSE as well as strengthening of its Board and management team with experienced Oil & Gas Industry expertise.*

## Business overview

### Investment in the Democratic Republic of the Congo

SacOil owns 50 per cent of the issued capital of Semliki, a company incorporated in the DRC, which in turn holds the oil concession rights pertaining to Block III.

A Presidential Ordinance approving the Block III Production Sharing Agreement has been issued to Semliki, whereby Semliki has the right to apply for an exploration permit.

On 31 March 2011, Semliki successfully concluded a farm-in agreement with Total pursuant to which Total acquired a 60,0 per cent undivided interest in, and became the operator of Block III. SacOil's residual effective interest in Block III is 12,5 per cent, with an effective 12,5 per cent being held by DIG Oil and an effective 15,0 per cent being held by the Government of the DRC.

### Investments in Nigeria

In the important Nigerian oil and gas market, SacOil has formed an unincorporated joint venture with the established indigenous oil and gas company, EER, to acquire and/or develop oil and gas assets in Nigeria as announced by the Company on 12 October 2010. This joint venture facilitates the acquisition by the Company of interests in oil and gas assets in Nigeria, including those relinquished and disposed of by international oil companies in compliance with Nigeria's indigenisation legislation.

Subsidiaries of the Company have entered into farm-in agreements in relation to OPL 281 and OPL 233 in Nigeria. SacOil owns a 20,0 per cent equity interest in both these blocks through its Nigerian subsidiary companies.

OPL 233 is located in the shallow water area of the Niger Delta. OPL 233 has been previously drilled and oil has been discovered but undeveloped.

OPL 281 is an onshore block covering some 138 km², and is located in the western delta region of Nigeria approximately 25 km due east from the Forcados terminal. Like OPL 233, OPL 281 has been previously drilled and oil has been discovered but undeveloped.

### Greenhills manganese sulphate plant

The Company's chemical manganese processing plant, the Greenhills plant, increased sales by 11 per cent. Profit from the manganese operations equated to R4,2 million (2010: R5,7 million) before tax. The management team continues to manage costs strictly and perform regular reviews of costs and selling prices to ensure that margins are maintained. The decrease in profit is mainly due to increased costs to maintain and upgrade the plant during the period under review. Sales and production levels were maintained and the Company expects this to continue during the ensuing reporting period.

## Financial overview

The group reported a headline loss of 6,62 (2010: earnings of 0,95) cents per share. The headline loss includes a loss of 6,38 cents per share directly attributable to corporate actions during the period under review as well as a loss of 1,15 cents from other profit and loss items.

Corporate action costs of R24,7 million is directly attributable to corporate actions undertaken by the group during the period under review. These costs include advisory and professional fees paid in relation to, *inter alia:*

- the successful restructuring of the group's investment in Block III;
- the group's investment in OPL 233 and OPL 281 in Nigeria;
- the successful raising of R133,0 million in equity; and
- the Company's successful admission to AIM on 8 April 2011.

Included in other profit and loss items for the period is R4,2 million in relation to share-based payment expenses recognised in terms of IFRS2 – Share-based payments as well as exchange differences recognised of R2,7 million in relation to the revaluation of foreign loans receivable at year end.

A net asset value of 69,57 (2010: 13,83) cents per share and a tangible net asset value of 11,03 (2010: 13,83) cents per share were reported.

## Current business operations

### Manganese

The Company's current operating business is the manufacturing of manganese sulphate monohydrate ("MSP"), manganese sulphate solution ("MSS") and manganese oxide ("MnO") from a chemical manganese processing plant near Graskop in Mpumalanga, better known as the Greenhills plant. With the shift of focus to oil and gas, the Greenhills plant is a non-core asset.

#### Manganese sulphate monohydrate and manganese oxide

Over the years the plant has managed to produce high quality manganese sulphate with a typical manganese content of 31,7 per cent to 32,2 per cent Mn. The other base metals are low and compete with the best in the world with the following important typical specifications for the feed industry:

- Arsenic: < 1,0 ppm
- Lead: < 1,0 ppm
- Mercury: < 0,1 ppm
- Cadmium: < 0,1 ppm

For the chemical industry other base metals are important with cobalt, nickel and copper, typically each below 1,0 ppm. No dioxin or melamine has been detected in the product.

The plant has been redesigned to consistently produce high quality product from any known manganese ore deposit in South Africa. The product sizing is minus 2 mm making it free flowing. The product is packed in 25 kg polyethylene plastic bags packed as 1,0 ton onto 1,2 metre *1,0 metre heat-treated pallets adhering to European standards. Packaging is also done in 1,0 ton woven polypropylene bulk bags. The maximum load in a standard 6-metre container is 20 tons. An independent laboratory does all analyses.

Manganese oxide is produced from a high-grade ore body with typical specification of 51 per cent acid soluble manganese. Although the grade is below the average world specification consistent exports to Australia are being done for the feed industries. Manganese oxide is also used in the production of MSP.

Packaging is in 25 kg three ply paper bags packed as 1,0 ton onto export approved pallets. Bulk packaging can also be done.

#### Performance

The reporting period was dominated by higher production and sales during the first half whilst the second half was dominated by the downturn in the economy.

Sales figures in tonnes are as follows:

| | **Sales 2011 12 months** | Sales 2010 12 months | % change |
|---|---|---|---|
| MSP | **3 733** | 3 587 | 4,07 |
| MnO | **1 403** | 1 640 | (14,45) |
| Total | **5 136** | 5 227 | (1,74) |

Production figures in tonnes are as follows:

| | **Production 2011 12 months** | Production 2010 12 months | % change |
|---|---|---|---|
| MSP | **3 709** | 3 486 | 6,40 |
| MnO | **4 559** | 4 342 | 5,00 |
| Total | **8 268** | 7 828 | 5,62 |

The Company's manganese sulphate consumers are mainly European holding companies continuously requiring higher standards of raw materials from their suppliers in their feed premix products. The high quality of the manganese sulphate produced at Greenhills adheres to these ever rising standards hence the reason for higher sales.

# Chief executive officer's report continued

Decrease in MnO sales is due to a slowdown in the chemical industries although sales in the premix industries continued to increase well above GDP. Export sales of MnO were consistent throughout the year. No exports to Europe occurred due to the strong Rand exchange rate with the US$ and Euro. No major change in sales volumes is expected for 2012. Orders from the Company's anchor clients continued as normal.

The average production capacity of the plant is 360 tonnes per month of MSP and these capacities were upheld during peak demand periods. No serious load shedding was encountered during the period.

## Future strategic and performance objectives

SacOil, as a South African based, operated and controlled company, has a competitive advantage at the point of entry in the highly attractive African oil and gas space. SacOil's remit is to build an African upstream oil and gas business with a balanced portfolio of assets in Africa. SacOil has a highly experienced Board with significant oil and gas industry as well as deal making expertise. SacOil's interests are in all phases of the upstream cycle – exploration, appraisal and near production. SacOil will continue with its stated strategy of targeting the acquisition of discovered but undeveloped, or previously producing but now shut, near-term producing and production upstream oil and gas assets on the African continent. SacOil intends to initially develop all its interests in consortiums with global major oil and gas companies with extensive experience in Africa; but in time looks to establish itself as a fully-fledged exploration and production company with in-house capacity.

SacOil has both the African DNA as well as the operational and exploration skills to gain acreage in the sought after African oil and gas space and to bring its assets to account. Its deal making abilities enable the Company to conclude transactions with super majors as well as indigenous partners. Non-operational minority interests in highly prospective exploration assets de-risk the Company both financially and operationally.

SacOil also has the technical ability to evaluate the commercial viability of near-term near-production oil and gas assets and to expedite time to production on projects identified for production. The objective of having production assets as part of its portfolio of assets is to generate sufficient cash flow resources, at its initial stages of development and growth, to fund project costs as well as strategic investments in exploration assets.

SacOil's interests are currently in Nigeria, the DRC and South Africa.

## Risk factors

The following risks have been identified as material to the group. The risks listed are not intended to be presented in any assumed order of priority.

### Initial operating stage

To date, the group has not recorded any revenues from its oil and gas assets nor has the group commenced commercial production on any of its projects. The group's operating expenses and capital expenditures will increase in subsequent years as personnel and equipment associated with advancing exploration, development and commercial production of its properties are added. The amounts and timing of revenues and expenditures will depend on the progress of ongoing exploration and development.

### Financial forecasts

Financial forecasts are dependent on assumptions made by directors, management and advisers. Assumptions include but are not limited to the oil price, capital cost, operating cost, country fiscal and tax regimes.

### Equipment availability

The unavailability of equipment, contractors and management could negatively impact on projects and thus cash flow.

### Exploration is highly speculative in nature

Oil and gas is an industry known to bear high risks. Successful oil and gas companies are those who have successfully anticipated and identified risks inherent to the industry and effectively managed such risks. The business of exploring for and developing oil and gas projects involves a high degree of risk. Notwithstanding the existence of positive evidence in a region, oil and gas exploration prospects are highly risky and will remain so until the resources are satisfactorily proven.

### Title matters

The acquisition and retention of title to mineral rights is an onerous, detailed and time-consuming process. Title to, and the area of, mineral resource claims may be disputed or challenged. In addition, in emerging economies, title to resources may be revoked by relevant authorities for unforeseen or potentially arbitrary reasons. Although the directors believe the group has taken reasonable measures to ensure title to, and rights and interests in, the licences to be held by it, and to the best of its knowledge title to such licences is in good standing, there is no guarantee that title to the licences to be held by it will not be challenged or impaired.

### Potential environmental liabilities

SacOil's current oil and gas resources are located in environmentally sensitive areas. The imposition of onerous environmental constraints can impact negatively on the capital cost of projects and the time for construction. In addition, environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees.

### Impact of law and governmental regulations

The group's investments may be subject to the foreign exchange and other fiscal regimes of various countries that may prevent, materially delay, or at least require governmental approval for, the full or partial repatriation of the group's investments.

### Illnesses

Illnesses are prevalent in Africa. Employees of the group may have or could contract potentially deadly viruses and diseases. The prevalence of such illnesses could cause lost employee man hours and loss of trained and experienced employees, increased absenteeism, depressed morale, reduced productivity and may make finding skilled labour more difficult.

### Conflict and Insurgency

The group's assets may lie in areas which have experienced warfare, insurgency or disorder. Such activities may adversely impact on the group's ability to successfully develop its projects.

### Competition

The group's strategy is to maintain a balance between exploration, near-term production and production assets. The oil and gas business is competitive in all of its phases. The group may not be able to secure further projects on financially acceptable terms.

### Force Majeure

There is the risk of natural occurrences such as fires, earthquakes and floods, and other extraordinary events such as wars, acts of terrorism, strikes, riots, crimes, civil disturbances and the like, having an impact on the group's operations.

### Access to capital

Access to sufficient capital is necessary for successful exploration and development of oil and gas emerging companies. There is no guarantee that sufficient funds can be raised by equity, debt or other financial instrument.

### General economic conditions

Changes in the general economic climate and in particular the climate in which the group operates may adversely affect the financial performance of the group. Factors that may contribute to that general economic climate include the level of interest rates, the rate of inflation, industrial disruption, stock market performance, perception of developing companies, commodity prices, cost of labour, political stability and fiscal policy. The aforementioned issues are often cyclic and volatile and any movement in any of the issues could have a major impact on the performance of the projects or the group.

### Volatility and liquidity

Investors should be aware that the value of the Company's ordinary shares may be volatile and investors face the risk of not recovering any or all of their original investment. AIM has periods of limited liquidity which may impact on the ability of an investor to dispose of any or all of his shareholding.

### Emerging markets

Investors in emerging markets such as DRC and Nigeria, should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Licences, titles and assets may be revoked without warning and without cause. Investors should also note that emerging economies such as that of DRC and Nigeria are subject to rapid change and that the information set out in this document may become outdated relatively quickly.

### Labour

SacOil believes that in all of its operating environments labour laws facilitate the cost efficient operation of its activities. There is no guarantee that such laws will continue and be supportive of SacOil's type of operation. Material changes in labour law could impact negatively on SacOil's exploration activities and production cash flow forecast.

### Management

Resource companies are experiencing strong competition to acquire the necessary senior and middle management technical skills necessary to manage

# Chief executive officer's report continued

exploration, development and production programmes. Should SacOil be unable to procure the necessary senior and middle management, then both project and the group's performance could be adversely affected.

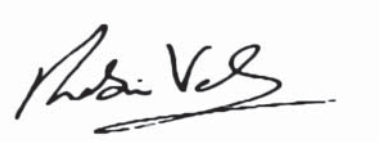
## Internal controls

The directors are responsible for the maintenance of accounting records and for ensuring the integrity and fair presentation of the group annual financial statements. The directors should also ensure that the group has internal control systems in place that will adequately protect the group's assets and enhance risk management. Although the ultimate accountability for risk management performance remains a function of the directors, the Board has appointed an Audit and Risk Committee to oversee risk management and provide assurance regarding the status of the organisation's risk management processes.

## Future prospects

SacOil is intent on becoming a leading African independent upstream oil and gas company with a balanced portfolio of African assets. SacOil's assets are in all phases of the upstream cycle – exploration, appraisal and near production and are currently in the DRC and Nigeria. The Company's access to Africa places it strategically well to acquire more acreage and facilitate deal flow in Africa. The Board continues to seek other opportunities which have the potential to add value to the Group and assist to move the Company's assets up the value curve.

*With a strong Board and Management team who possess significant oil & gas industry experience and technical and operational expertise; effective risk management and the ability to access acreage on the African continent will position the group well to achieve its strategic goals in order to maximise shareholder value.*



**Robin Vela**
Chief Executive Officer

24 August 2011

# Board and management


**Left to right: Richard Linnell; Gontse Moseneke; Bill Guest; John Bentley**

## Non-executive directors

**Richard John Linnell (66) – *Independent non-executive Chairman; appointed 19/09/2002***
***Member of Audit and Risk Committee and member of Nomination and Remuneration Committee***

Richard Linnell is an experienced geologist, who has worked with various companies which now form part of the BHP Billiton (SA) Group, culminating in running the Samancor manganese operations and Billiton's exploration and development activities in South Africa. Richard is a former non-executive director of BHP Billiton (SA) Limited and is Chairman of Coal of Africa Limited. Richard is also Chairman of Independent Power South Africa.

**Gontse Samuel Moseneke (29) – *Independent non-executive director; appointed 31/08/2009***
***Chairman of Social and Ethics Committee and member of Nomination and Remuneration Committee***

Gontse Moseneke has a background in financial management and investment banking. He is part of the executive team at Encha Group Limited, a diversified investment holding company. He has also been involved in a project by the South African Oil and Gas Alliance to develop and market South Africa's engineering and related services capability. Gontse holds a Bachelor of Science degree in Statistics and Actuarial Sciences from the University of Cape Town, and a Diploma in Actuarial Techniques from the Institute of Actuaries (London, United Kingdom).

**James William (Bill) Guest (58) – *Independent non-executive director; appointed 01/05/2011***
***Chairman of Audit and Risk Committee and member of Social and Ethics Committee***

Bill has over 35 years' international exploration and production experience within the oil industry, in technical business development and senior management functions. He has 14 years' experience as a main board director of London listed oil and gas exploration and production companies with front line involvement in corporate and strategic development, PR/IR and fundraising. Recent roles included being the managing director of Endeavour Norway and President of Gulf Keystone Petroleum. Currently Bill is a non-executive director of Hurricane Exploration plc. and Matra Petroleum. Bill holds a BSc Honours degree in Geology from Leicester University, UK and is a Fellow of the United Kingdom Energy Institute.

**John Bentley (63) – *Independent non-executive director; appointed 01/05/2011***
***Chairman of Nomination and Remuneration Committee and member of Audit and Risk Committee***

John has over 40 years' experience in the natural resources sector. He was Managing Director of Gencor's Brazilian mining company, Sao Bento Mineracao, from 1988 to 1993 when he became chief executive of Engen's Exploration & Production division. In 1996 he was instrumental in floating Energy Africa Limited on the Johannesburg Stock Exchange and became Chief Executive for the following five years building it into one of the leading African independent oil and gas companies.

More recently John was Executive Chairman of FirstAfrica Oil plc and a non-executive director of Adastra Minerals Limited. He currently serves on the board of a number of resource companies including as chairman of Faroe Petroleum plc, chairman of Scotgold Resources Limited, deputy chairman of Wentworth Resources Limited and non-executive director of Resaca Exploitation Inc and Kea Petroleum plc. John holds a degree in Metallurgy from Brunel University.

# Board and management continued


**Left to right: Carina de Beer; Robin Vela; Colin Bird; Bradley Cerff**

## Management team

**Robin Vela (40) – *Chief executive officer; appointed 25/02/2008***

Robin is the founding Chief Executive Officer of SacOil. Robin is a professionally qualified and experienced Investment Banker/Executive as well as a UK qualified Chartered Accountant and Fellow of the UK Chartered Securities Institute. Robin is also an appointed consultant to the World Bank and International Finance Corporation.

During his career path Robin has a verifiable track record of leading and closing corporate and investment related transactions in SADC and the City of London. Robin graduated with an honours degree in Economics and Accounting from Bristol University.

**Carina de Beer (40) – *Finance director; appointed 10/08/2010***

Carina heads the financial division of SacOil. Carina is a Chartered Accountant (SA) and completed her articles with PricewaterhouseCoopers.

Carina has 12 years' experience in corporate financial management and reporting, company secretarial practice, compliance and corporate governance. Carina has served as an executive member of a number of JSE listed entities. She is a member of the Institute of Directors as well as the South African Institute for Chartered Accountants.

**Colin Bird (67) – *Executive director; appointed 20/04/2008 as non-executive and changed to executive director on 15/10/2010***

Colin has a Diploma in Mining Engineering, is a Fellow of the Institute of Materials, Minerals and Mining and is a certified Mine Manager both in the UK and South Africa. In the past Colin was Technical and Operations Director of Costain Mining, which involved responsibility for operations in Argentina, Venezuela and Spain.

Besides that he has been involved in the management of nickel, copper, gold and other diverse mineral operations. Colin has founded and floated several public companies in the resource sector and served on resource company boards in the UK, Canada and South Africa.

**Bradley Robert Cerff (38) – *Vice president; appointed 09/05/2011***

Bradley Cerff has 15 years' experience in the oil and gas exploration and production industry. Bradley joined SacOil from PetroSA where he held the position of regional manager for East and West Africa. He was responsible for upstream assets and business development in East and West Africa, maintaining and developing a sustainable portfolio of exploration and production assets in West Africa.

Bradley has managed teams and assets in almost all African oil producing countries including Nigeria. Bradley has also drilled a number of exploration and production wells, developed and produced oil on the continent.

Bradley has a Masters Degrees in Science and Business Administration focused on foreign direct investment in the African oil and gas industries. He is also a member of the Society of Petroleum Engineers.

# Corporate governance report

The Board, its committees and our employees conduct the group's business with integrity and transparency through applying sound corporate governance policies and practices.

## Apply or explain principle of King III

The Board acknowledges that the application of the King Code of Governance is a valuable guide to the entrenchment of strong governance principles throughout the group. The Board endorses the fundamental principles of good financial, social, ethical and environmental practice as set out in the King report on Governance for South Africa 2009 ("King III"), QCA Corporate Governance Guidelines for AIM companies and UK Corporate Governance Code.

The Company complies with the main provisions of the QCA Corporate Governance Guidelines for AIM companies and the UK Corporate Governance Code insofar as they are appropriate given the Company's size and stage of development.

SacOil has adopted the "apply or explain" principle of King III. The following was done after adopting the principles of King III:

- The Audit and Risk Committee's terms of reference were reviewed and aligned with King III, the QCA Corporate Governance Guidelines for AIM companies and the UK Corporate Governance Code;
- The Remuneration and Nomination Committee's terms of reference were reviewed and aligned with King III, the QCA Corporate Governance Guidelines for AIM companies and the UK Corporate Governance Code; and
- The Board charter was reviewed and aligned with King III, the QCA Corporate Governance Guidelines for AIM companies and the UK Corporate Governance Code.

Recommendations of King III not applied are highlighted below. The Board will continue to consider the recommendations of King III with reference to the Company's size and stages of development.

- Audit and Risk Committee: The Chairman of the Board is a member of the Audit and Risk Committee. The board considered the size of the Company as well as the requirements of the Companies Act on the constitution of the Audit Committee. It was resolved that the non-executive independent Chairman of the Board also serve as a member of the Audit and Risk Committee.
- Internal Audit: The Company does not have an independent internal audit function. The Board as a whole oversees this and more disclosure in this regard is available on page 20 of this report.
- Information Technology governance: The Board as a whole considers Information Technology governance supported by the Executive Committee. The Board will give further consideration to the recommendations of King III in this regard.
- External assurance: There was no external assurance on the integrated report. The Board will consider obtaining external assurance on the integrated report including the cost implications thereof going forward.
- The Board as a whole with the assistance from its sub-committees considers and oversees compliance. There is no independent compliance function at present but this is being considered by the Board.
- Certain non-executive directors received share options in terms of the Company's old share option scheme. Non-executive directors appointed after 20 September 2010, being the date that the Company adopted a new share option scheme, will not be able to participate in the scheme, however, the Company is considering amending its scheme to allow non-executive directors to receive options on their appointment dates. SacOil is a small cap oil and gas Company and would not be able to recruit the calibre of individuals it has to date without compensating them for their time and efforts. The company monitors options granted to individuals to ensure that individual holdings do not exceed 5 per cent of the total issued share capital of the Company which would enhance independence of non-executive directors.

## JSE and AIM

Using the apply or explain principle, the Company complied with the Listing Requirements of the JSE and also with the AIM Rules for Companies ("AIM Rules") following its secondary listing on AIM on 8 April 2011. The directors are responsible for ensuring compliance by the company with its obligations under the AIM Rules: "An AIM Company must ensure that each of its Directors accepts full responsibility, collectively and individually, for its compliance with the AIM Rules" (Rule 31 of the AIM Rules).

## Companies Act 2008 (Act 71 of 2008)

The Companies Act of 2008 came into effect on 1 May 2011 and SacOil is geared to align itself with the new legislation. The Companies Act of 2008 has had limited impact on this report and all the financial information contained herein is in accordance with the Companies Act 1973.

The notice of the annual general meeting is however compliant with the Companies Act of 2008.

## Board of directors

The Board recognises that it is responsible for implementing practices of good governance and that companies no longer act independently from

# Corporate governance report continued

the societies and the environment in which they operate. The Board is committed to high standards of corporate governance in order to facilitate an environment where the Company's assets are safeguarded and the interests of all stakeholders and shareholders are protected.

## Board Charter

The scope of authority, responsibility, composition and functioning of the Board is contained in a formal charter which is reviewed regularly.

## Board composition

In line with the recommendations of King III, SacOil has a unitary Board structure consisting of four non-executive directors and three executive directors. Background information of directors appears on pages 11 and 12 of this report.

A division of responsibilities ensures a balance of authority and power, with no one individual having unrestricted decision-making powers.

As at 28 February 2011 the composition of the Board was as follows:

- Robin Vela — Chief Executive Officer
- Carina de Beer — Finance Director
- Richard Linnell — Non-executive Chairman
- Gontse Moseneke — Non-executive director
- Colin Bird — Executive director since 15 October 2010 (previously non-executive director)

The following changes to the Board occurred subsequent to the year end:

- Bill Guest — Independent non-executive director appointed 1 May 2011;
- John Bentley — Independent non-executive director appointed 1 May 2011.

There were no resignations during the period under review or subsequent to year end.

## Board meetings

A minimum of four Board meetings are scheduled per financial year and additional meetings can be convened to consider specific business issues which may arise between scheduled meetings. Special Board meetings were held during the period under review to consider specific issues including the Company's admission to AIM. Attendance of Board meetings is available on page 21.

In addition to the Board meetings, the Board annually convenes strategy meetings with executive management in order to determine strategic direction and to consider plans proposed by management for the achievement thereof. Progress against the strategic plan is monitored by the Board. Attendance of strategy meetings is available on page 21.

## Main duties and responsibilities of the directors

Directors' duties and responsibilities are prescribed by law. The Board discharges the following duties and responsibilities which list is not limited, in the interests of good governance:

- Contributing to and approving the strategy and overseeing that the strategy results in sustainable outcomes, whilst appreciating that strategy, risk, performance and sustainability are inseparable;
- Overseeing relationships with stakeholders and shareholders of the Company along sound governance principles;
- Ensuring the Company is a responsible corporate citizen by taking into account the impact of the business operations on society and the environment;
- Providing effective leadership on an ethical foundation whilst acting in the best interests of the Company;
- Providing oversight of performance against targets and objectives;
- Overseeing director selection, orientation and evaluation;
- Assessing the group as a going concern;
- Approving the annual and interim financial statements;
- Overseeing key performance and risk areas;
- Ensuring effective risk management and internal control;
- Overseeing information technology governance;
- Overseeing legislative, regulatory and governance compliance;
- Ensuring balanced and understandable communication to stakeholders;
- Acting as the focal point for and custodian of corporate governance;
- Seeking the optimum balance for the Company between conformance with the dictates of good governance and performance;
- Reviewing the size and composition of the Board in terms of the mix of skills-diversity and the requirements for the appropriate constitution of Board committees;
- Agreeing on the procedure to allow directors to obtain independent professional advice where necessary;
- Maintaining agreed procedures and policies to manage conflict of interest;
- Ensuring unrestricted access to Company information and records; and
- Delegating appropriate powers to management and monitoring the exercise of that delegated power on an on-going basis.

## The Chairman

The Chairman, so elected by the Board is an independent non-executive director. The roles of the Chairman and CEO remain separate. The Chairman's performance is evaluated annually.

The core functions of the Chairman are highlighted as follows:

- Sets the ethical tone for the Board and the Company;
- Provides overall leadership to the Board without limiting the principle of collective responsibility for Board decisions, while at the same time being aware of the individual duties of Board members;
- Considers and oversees a formal succession plan for the Board and CEO;
- Identifies and participates in the selection of Board members;
- Formulates, with the CEO and Company Secretary, the yearly work plan for the Board against agreed objectives;
- Plays an active part in setting the agenda for Board meetings and presides over Board meetings;
- Acts as the link between the Board and management and particularly between the Board and the CEO;
- Maintains an arm's length relationship with Board members and management;
- Monitors how the Board works together and how individual directors perform and interact at meetings;
- Meets with individual directors once a year to evaluate their performance;
- Ensures that good relations are maintained with the Company's major shareholders and its strategic stakeholders; and
- Presides over shareholders' meetings.

## Non-executive directors

All the non-executive directors are individuals of high calibre and credibility. They have the necessary skills and experience to bring judgement to bear, independent of management, on issues of strategy, performance, resources, transformation, diversity and employment equity, standards of conduct and evaluation of performance.

The non-executive directors are not involved in the day-to-day management of the business and not encumbered with specific management responsibility. They are not full-time salaried employees of the Company and/or any of its subsidiaries. None of the non-executive directors have been employed by the Company and are accordingly not predisposed for or against some parts of the business. None of the non-executive directors are retained professional advisers. The non-executive directors have unfettered access to management.

All non-executive directors' appointments are formalised through letters of appointment. The non-executive directors enjoy benefits from the group for their services as directors. They receive fees for their services as directors. They can also earn dividends on their interests in ordinary shares.

## Independence of directors

No independent non-executive director has served for a period of nine years. The Board will measure their independence in line with the policy on measuring independence.

The Company Secretary confirms the following:

- They were not representatives of any shareholder who has the ability to control or materially influence management or the Board;
- They were not employed by the Company or the group in any executive capacity in the preceding three financial years;
- They were not members of the immediate family of an individual who is, or has been in any of the past three financial years, employed by the Company or the group in an executive capacity;
- They were not professional advisers to the Company or the group, other than in the capacity as a director;
- They were not suppliers or material suppliers to the Company or group, or to clients of the group;
- They had no material contractual relationship with the Company or group; and
- They were free from any business or other relationship which could be seen to materially interfere with the individual's capacity to act in an independent manner.

## Executive directors

The Company has three executive directors. All the executive directors are involved in the day-to-day management of the Company and are full-time employees. The executive directors carefully manage the conflict between their management responsibilities and their fiduciary duties as directors in the best interest of the Company.

All executive directors have entered into service contracts with the Company which contracts are reviewed annually. The CEO's performance is evaluated annually by the Chairman.

The Board determines the remuneration of executive directors in accordance with the remuneration policy put to shareholder's vote.

The executive directors are individually mandated and held accountable for:

- The implementation of the strategies and key policies determined by the Board;
- Managing and monitoring the business and affairs of the Company in accordance with approved business plans and budgets;

# Corporate governance report continued

- Prioritising the allocation of capital and other resources; and
- Establishing the best management and operating practices.

## Chief Executive Officer and delegation of authority

The ultimate responsibility for the group rests with the Board. The Board retains effective control through a well-developed governance structure of Board committees. The role and function of the CEO is formalised and his performance is evaluated against set criteria. Certain authorities have been delegated to the CEO to manage the day-to-day business affairs of the Company. However, in terms of statute and the Company's constitution, together with the revised delegation of authority, certain matters are still reserved for Board and/or shareholder approval.

The CEO is tasked with the running of the business and the implementation of the policies and strategies approved and adopted by the Board. The Board's governance and management functions are aligned through the CEO. All the authority conferred on management is delegated through the CEO. The accountability of management is considered to be the authority and the accountability of the CEO.

## Board selection, appointment and rotation

When determining the number of directors to serve on the Board, the collective knowledge, skills, experience and resources required for conducting the business of the Board are considered.

Factors considered by the Board include:

- The evolving circumstances and needs of the Company;
- Appropriate mix of executive and independent non-executive directors;
- The need to have sufficient directors to structure Board committees appropriately;
- The requirements for skills and knowledge to make business judgement calls on behalf of the Company; and
- Regulatory requirements.

Directors are appointed in a transparent and formal procedure. The Remuneration and Nomination Committee is responsible for selecting and recommending the appointment of competent, qualified and experienced directors. The Board as a whole appoints directors. All newly appointed directors are subject to an induction programme.

Re-appointment to the Board is not automatic and directors may offer themselves for re-election.

In terms of section 13.2 of the Articles of Association, any person appointed during the year shall retain office only until the next following annual general meeting of the Company and shall then retire and be eligible for re-election.

The rotation of directors is more fully governed in terms of section 15 of the Articles of Association. One third of the directors, or if their number is not a multiple of 3, then the number nearest to, but not less than one third, shall retire from office at each Annual General Meeting. The directors so to retire shall be firstly those retiring in terms of article 13.2 and secondly those referred to in terms of article 13.16 (not applicable in this regard) and lastly those who have been longest in office since their last election or appointment. Provided that notwithstanding anything herein contained, if, at the date of any annual general meeting any director will have held office for a period of three years since his last election or appointment he shall retire at such meeting, either as one of the directors to retire or in addition thereto. The names of the directors eligible for re-election are submitted at the annual general meeting, accompanied by appropriate biographical details set out in the annual report. The Company has not adopted a retirement age for directors.

## Training and updating the knowledge of directors

The Board and each individual director have a working understanding of the effect of the business, applicable laws, rules, codes and standards of the Company. Directors receive regular briefings on changes in risks, laws and the environment. The induction and on-going training of directors are conducted through a formal process.

The Company is committed to providing continuing professional development training opportunities to our directors and officers.

## Company Secretary

All directors have access to the advice and services of the Company Secretary. The Company Secretary is Fusion Corporate Secretarial Services (Pty) Limited, represented by Melinda Gous. The Company Secretary is responsible for the functions specified in the Companies Act of 2008.

The Board empowers the Company Secretary to enable her to properly fulfil her duties.

The Company Secretary:

- Has an arm's-length relationship with the Board;
- Is not a director of the Company;
- Assists with the nomination and appointment of directors;

- Provides guidance to the Board regarding the duties of the directors and good governance;
- Ensures that the Board and committee charters are kept up to date;
- Prepares and circulates Board and committee papers;
- Assists in drafting yearly plans;
- Prepares and circulates minutes of Board and committee meetings; and
- Assists with evaluating the Board, committees and individual directors

### Committee structure

The directors have delegated specific functions to committees to assist the Board in meeting their overall responsibilities.

The Board has established standing committees in this regard. The committees were reconstituted in July 2011 following the appointment of more independent non-executive directors on 1 May 2011. The Board committees will be subject to regular evaluation by the Board to ascertain their level of performance and effectiveness.

The committees all act in accordance with approved terms of reference which are reviewed annually. The Board as a whole fulfilled the functions of the sub-committees for the period under review.

The Company has the following sub-committees:
- Audit and Risk Committee;
- Nomination and Remuneration Committee; and
- Social and Ethics Committee.

## Nomination and Remuneration Committee

**Members:** John Bentley (Chairman); Richard Linnell and Gontse Moseneke.

Robin Vela and Carina de Beer attend the meetings by invitation.

The Nomination and Remuneration Committee will meet at least twice a year. The committee was reconstituted in July 2011.

One meeting was held during the year on 18 April 2011. The Chairman of the Remuneration Committee reports to the Board after every Remuneration Committee meeting held and further attends annual general meetings to answer questions of shareholders.

No executive director participates in discussions of their own remuneration and benefits and neither do they have a vote at meetings.

Further details of attendance of the Remuneration Committee meetings are available on page 21.

### Role of the Nomination and Remuneration Committee

The Nomination and Remuneration Committee's roles and responsibilities include but are not limited to:
- Identifying and evaluating suitable candidates for appointment to the Board and performing background checks on the identified individuals;
- In assessing new directors, the committee assesses whether the basic requirements for directorship in the Companies Act are met;
- Advising on the composition of the Board (structure, size and balance between non-executive and executive directors);
- Evaluation of the directors and reviewing the evaluation procedures and results;
- Evaluating with the Board whether collectively (but not necessarily individually) the Audit Committee has the necessary skills to perform its function and responsibilities;
- Determining, agreeing and developing the group's competitive remuneration policy to retain and regard skilled and quality staff;
- Ensuring that the remuneration policy is aligned with the group strategy;
- Determining and agreeing to the remuneration packages for the executive directors, to ensure that directors and senior executives are fairly rewarded for their individual contributions to the overall performance of the Company. The Remuneration Committee consults from time to time with the CEO where the remuneration of other executives is concerned;
- Assessing and reviewing employee long-term incentive schemes and performance bonuses;
- Determining and recommending to the Board the level of fees for non-executive directors which are tabled for shareholder approval at the annual general meeting; and
- Succession planning, particularly in respect of the CEO and executive management.

### Remuneration structure

The remuneration structure is delegated as follows:
- The Nomination and Remuneration Committee approves executive directors' fees;
- The Nomination and Remuneration Committee approves executive committee members' fees as proposed by management; and
- Management approves employees' remuneration.

### Remuneration philosophy

SacOil strives to create a performance-orientated remuneration philosophy which fairly rewards executives and employees for their respective contributions to achieving the Company's strategic,

# Corporate governance report continued

financial and operational objectives. The remuneration structures are to encourage sustainable, long-term wealth creation.

The following factors regarding the remuneration structures are highlighted:

- The remuneration philosophy is supportive of the Company's strategy;
- Cost of employment is managed while employees at the same time are rewarded in order to retain and motivate talented, skilled and high calibre executives and employees;
- The Company promotes a performance based culture; and
- The Company strives to align executive rewards in the interest of shareholders.

The Board acknowledges the importance of motivating individual and team performances and therefore applies the remuneration philosophy equitably, fairly and consistently in relation to job responsibilities, the markets in which the group operates and personal performance.

The group rewards executive directors and employees as follows:

- Market related fair annual packages (base salary and benefits), which are competitive owing to the portability of skills;
- Market information is sourced from industry and executive remuneration surveys to benchmark executive remuneration in comparable positions;
- Annual performance bonus; and
- Participation in the SacOil Share Option Scheme, (refer page 56 of this annual report for details of options granted).

## Social and Ethics Committee

**Members:** Gontse Moseneke (Chairman) and Bill Guest (member).

The Company has on 27 July 2011 constituted a Social and Ethics Committee in accordance with section 72(4) of the Companies Act 2008 and regulation 43 (2).

### Function

The Social and Ethics Committee will monitor the Company's activities, having regard for any relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to:

- Social and economic development, including the Company's standing in terms of goals and purposes of:
  - The 10 principles set out in the United Nations Global Compact Principles;
  - The OECD recommendations regarding corruption;
  - The Employment Equity Act; and
  - The Broad Based Black Economic Empowerment Act;
- Good corporate citizenship, including the Company's:
  - Promotion of equality, prevention of unfair discrimination, and reduction of corruption;
  - Contribution to development of the communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed; and
  - Record of sponsorships, donations and charitable giving;
- The environment, health and public safety, including the impact of the Company's activities and of its products or services;
- Consumer relationships including the Company's advertising, public relations and compliance with consumer protection laws; and
- Labour and employment, including:
  - The Company's standing in terms of the International Labour Organisation Protocol on decent work and working conditions;
  - The Company's employment relationships, and its contribution toward the educational development of its employees;
  - To draw matters within its mandate to the attention of the Board as occasion requires; and
  - To report, through one of its members, to shareholders at the Company's annual general meeting on the matters within its mandate.

The Social and Ethics Committee has not yet met and its terms of reference is being finalised.

### Share dealings

All directors, officers and employees of the Company are advised of closed and prohibited periods in terms of the requirements of the JSE Limited and the AIM Rules. Directors, employees, consultants and agents are prohibited from trading in the group's securities during closed and prohibited periods.

Directors are required to obtain written clearance from the Chairman prior to dealing in the Company's shares. The Chairman is required to obtain approval from the Chairman of the Audit and Risk Committee before undertaking any share dealings. It is also mandatory for directors to notify the Company Secretary of any dealings in the Company's shares. This information is then disclosed on the Securities Exchange News Service ("SENS") of the JSE as well as on the Regulatory News Service ("RNS") of the LSE within 48 hours of the trade being effected. The Company maintains a record of any share dealings throughout the year.

Directors' interests are disclosed on page 61 of this annual report.

### Analysis of shareholding

An analysis of the Company's shareholding at 28 February 2011 can be found on pages 60 and 61 of this annual report.

### Going concern

The Board is satisfied that the group has adequate resources to continue operating for the next 12 months. The group financial statements presented have been prepared on a going concern basis. The Board is apprised of the group's going concern status at each Board meeting.

### Investor relations and communication with stakeholders

The Company is committed to an on-going interactive relationship with shareholders, investors, analysts and regulators.

Investor relations activities include interim and final results presentations to investors which are available on the website: www.sacoilholdings.com.

### Sponsor (South Africa)

The Standard Bank of South Africa Limited is the appointed Sponsor of the Company.

### Nominated advisor and joint broker (London)

FinnCap Limited is the appointed nominated advisor. Their address is 60 New Broad Street, London, EC2M 1JJ, United Kingdom.

### Transfer secretary

Link Market Services South Africa (Proprietary) Limited, is the appointed Transfer secretary to the group. They assist all our shareholders with enquiries pertaining to shareholdings. Shareholders can address shareholding related queries to PO Box 4844, Johannesburg, 2000 or visit them at 13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein, 2001.

## Audit and Risk Committee report

### Dear Shareholder

We are pleased to present our report for the financial year ended 28 February 2011. This report of the Audit and Risk Committee is presented to shareholders in compliance with the requirements of the Companies Act, 2008 (No. 71 of 2008).

As detailed earlier in the Corporate Governance Report the Audit and Risk Committee acts in accordance with approved terms of reference.

### Audit and Risk Committee members and attendance at meetings

**Members:** Bill Guest (Chairman and independent non-executive director); Richard Linnell and John Bentley. The independent external auditors attend the meetings as standing invitees.

Robin Vela, Carina de Beer and Gontse Moseneke attend the meetings by invitation.

### Election of Audit and Risk Committee members

In terms of the Companies Act 2008 (Act 71 of 2008), shareholders are required to elect the members of this committee at each annual general meeting. The Board confirms that the Audit and Risk Committee members are suitably skilled and experienced independent non-executive directors. The appointment of Richard Linnell, Bill Guest and John Bentley is subject to shareholders re-electing them as members of the committee at the annual general meeting to be held on 17 November 2011.

Biographical details of the committee members appear on pages 11 and 12.

### Fees

Fees paid to the committee members are detailed on page 45 and the proposed fees for 2012 are disclosed on page 66.

### Meetings

The committee will meet at least twice per annum. The Chairman of the committee will report to the Board after every Audit and Risk Committee meeting held. As previously stated, the Board as a whole acted on matters related to the Audit and Risk Committee for the period under review.

### Role of the committee

The Audit and Risk Committee is a statutory committee under the new Companies Act and in terms of the recommendations set out in King III. The committee has an independent role with accountability to the Board. The committee's responsibilities include the statutory duties prescribed by the Companies Act, activities recommended by King III and the responsibilities assigned by the Board.

### External auditor independence

The committee has to consider the independence of the external auditors and also to nominate for appointment such registered auditor of the Company.

# Corporate governance report continued

The Board was satisfied with the independence of the external auditors and recommended the reappointment of BDO South Africa Inc. as the independent registered audit firm and the individual registered auditor, Fred Bruce-Brand. The audit firm and designated auditor are accredited to appear on the JSE List of Accredited Auditors.

## Fees paid to external auditors and terms of engagement

The committee determines the fees to be paid to the auditor and also the auditor's terms of engagement. The approved normal annual audit fee for the financial period under review amounted to R190 000 and was approved by the Board.

## Non-audit services

The committee determines the nature and extent of any non-audit services that the auditor may provide to the Company. There were no non-audit services approved for the period under review.

## Evaluation of the annual financial statements

The Board as a whole considered and commented on the financial statements, the accounting practices and the internal financial controls of the Company.

The Board considered, reviewed and discussed the annual group financial statements with the independent external auditors and Finance Director. The Board is satisfied that the group financial statements of the Company comply with International Financial Reporting Standards.

The external auditor had unrestricted access to the group's records and management. There were no limitations imposed on the scope of the external audit. The auditor furnished a written report to the Board on significant findings arising from the annual audit and did not raise any matters of concern.

After agreeing that the going concern premise was appropriate the Board approved the annual group financial statements on 23 May 2011. These group financial statements will be open for discussion at the forthcoming annual general meeting. The Chairman of the committee, and in the instance of his absence, the other members of the committee, will attend the annual general meeting to answer questions falling under the mandate of the committee.

## Expertise and experience of the Finance Director and finance function

The Board executed the responsibility in terms of paragraph 3.84(h) of the JSE Listings Requirements and confirmed that they are satisfied with the appropriateness of the expertise and experience of the Financial Director, Carina de Beer.

## Internal audit

The primary goal of internal audit is to evaluate the Company's risk management, internal control and corporate governance processes and ensure that they are adequate and are functioning correctly. The internal audit function is performed by the group finance department internally on group companies. The Board as a whole is also considering the internal controls. While considering the information and explanations given by management plus discussions held with the external auditor on the results of their audit, the committee is of the opinion that the system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements.

## Risk management

The Board is responsible for the risk management process and management is accountable to the Board for designing, implementing and monitoring the process of risk management in the day-to-day activities of the group.

The committee has a duty to:

- Identify areas of governance non-compliance and propose remedial action;
- Review risk management policies, processes risk philosophy and strategies;
- Ensure risk management is integrated into business operations and ensure that management implements the appropriate risk responses;
- Oversee integrated reporting;
- Evaluate the basis and adequacy of insurance cover;
- Ensure internal audit is aligned with risk management processes;
- Identify emerging areas of risk; and
- Ensure compliance with legislation, regulation and governance codes, including King III.

## Approval of the audit and risk committee report

The Board as a whole being responsible for the audit and risk committee report, confirms that this report has been approved.

**Colin Bird**
Chairman – Audit Committee

24 August 2011

**Summary of meeting attendances**

| Key: | |
|---|---|
| Present | P |
| Not Appointed yet | NA |
| Absent | X |
| Apology | A |
| Alternate | AP |
| Meeting cancelled | MC |

| Board | 12-Apr-10 | 08-Jul-10 | 25-Aug-10 | 15-Oct-10 | 28-Oct-10 | 25-Jan-11 | 01-Mar-11 | 27-Jul-11 |
|---|---|---|---|---|---|---|---|---|
| Type of meeting | Routine | Routine | Routine | Routine | Specific | Routine | Specific | Routine |
| Richard Linnell | P | P | P | P | P | P | P | P |
| Colin Bird | A | A | A | P | P | A | P | A |
| Robin Vela | P | P | P | P | P | P | P | P |
| Gontse Moseneke | P | P | P | P | P | P | P | P |
| Carina de Beer | NA | NA | P | P | P | P | P | P |
| Bill Guest | NA | NA | NA | NA | NA | NA | NA | P |
| John Bentley | NA | NA | NA | NA | NA | NA | NA | P |
| Company Secretary | P | P | P | P | P | P | p | P |

| Strategy | 16-Feb-10 | 26-Jul-11 |
|---|---|---|
| Richard Linnell | P | P |
| Gontse Moseneke | P | P |
| Colin Bird | P | P |
| Robin Vela | P | P |
| Carina de Beer | P | P |
| John Bentley | NA | P |
| Bill Guest | NA | P |
| Company Secretary | P | P |

| Remuneration Committee | 18-Apr-11 |
|---|---|
| Richard Linnell | P |
| Gontse Moseneke | P |
| Company Secretary | P |

| AIM Committee | 07-Mar-11 |
|---|---|
| Robin Vela | P |
| Carina de Beer | P |
| Company Secretary | P |

# Statement of accountability and responsibility

The directors are responsible for the maintenance of accounting records and for the preparation, integrity and fair presentation of the annual financial statements and group annual financial statements of SacOil Holdings Limited. The annual financial statements of the group for the year ended 28 February 2011 have been prepared in accordance with the group's accounting policies, which comply with International Financial Reporting Standards and the presentation and disclosure requirements of International Accounting Standards statements and the requirements of the Companies Act of South Africa as well as the AC500 standards as issued by the Accounting Practices Board or its successor and the Listings Requirements of the JSE Limited and are consistent with those of the previous year. They have been prepared on a going concern basis and include amounts based on judgments and estimates made by management. Based on forecasts, the directors have no reason to believe that the Group will not be a going concern in the foreseeable future.

The directors have also prepared the other information included in this annual report and are responsible for both its accuracy and consistency with the financial statements.

The directors also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and prevent and detect fraud and other irregularities.

There has been no material change in the affairs and trading position of the Group and its subsidiaries since the date of signature of the audit report and the date of the notice of annual general meeting.

The directors are not aware of any legal or arbitration proceedings active, pending or threatened against or being brought by the Group, which may have a material effect on the group's financial position or which have had a material effect during the 12 months preceding the date of this notice of annual general meeting.

The financial statements have been audited by the independent accounting firm, BDO South Africa Incorporated, which was given unrestricted access to all financial records and related data, including minutes of all shareholders, directors and committees of the Board. The directors believe that all representations made to the independent auditors during their audit were valid and appropriate. The independent auditors' report is presented on page 23.

The financial statements were approved by the Board of directors on 24 August 2011 and are signed in its behalf by:

**Richard Linnell**
Chairman

**Robin Vela**
Chief Executive Officer

24 August 2011

# Company Secretary's certification

I certify that the SacOil group has lodged with the Registrar of Companies all returns as required by a public company in terms of the Companies Act of South Africa, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

The Companies Act no 71 of 2008 came into operation on 1 May 2011. The annual financial statements of the Group for the year ended 28 February 2011 have been prepared in accordance with the Companies Act of 1973.

**Melinda Gous**
Company Secretary

24 August 2011

# Report of the independent auditors

## To the members of SacOil Holdings Limited

We have audited the annual financial statements and Group annual financial statements of SacOil Holdings Limited, which comprise the directors' report, the statement of financial position and the consolidated statement of financial position as at 28 February 2011, the statement of comprehensive income and the consolidated statement of comprehensive income, the statement of changes in equity and the consolidated statement of changes in equity, the statement of cash flows and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 24 to 59.

## Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the Company and of the group as at 28 February 2011, their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

**BDO South Africa Incorporated**
Registered Auditors
FM Bruce-Brand

Johannesburg
24 August 2011

# Directors' report

## Business operations

SacOil is an African independent upstream oil and gas company. SacOil seeks to build a balanced portfolio of African located oil and gas assets being exploration, near production and production. SacOil's interests are currently in Nigeria, the DRC and South Africa. SacOil, as a South African based, operated and controlled company, has a competitive advantage at the point of entry in the highly attractive African oil and gas industry. SacOil is positioned to and has managed to acquire petroleum assets (at significantly discounted prices to their average net asset value) with both upside potential and a capacity to deliver meaningful cash flow in a relatively short time frame.

The Company's current operating and cash generative business is that of manufacturing manganese sulphate monohydrate, manganese sulphate solution and manganese oxide from a chemical manganese processing plant near Graskop in Mpumalanga, better known as the Greenhills plant.

A review of the operations for the year can be found in the operational review on page 7 of this annual report.

## Financial results

The results of the group and the state of its affairs are set out in the group annual financial statements and accompanying notes for the year ended 28 February 2011.

## Dividends

No dividend has been proposed or declared for the year ended 28 February 2011.

## Stated capital

The Company has issued the following ordinary shares during the period under review and up to the date of signature of this annual report:

| Date issued | Beneficial shareholder | Ordinary shares | Issue price (SA cents) | Issued in terms of |
|---|---|---|---|---|
| 08/05/2011 | R Vela | 6 489 605 | 214 | AIM admission bonus |
| 08/05/2011 | C Bird | 2 552 610 | 214 | AIM admission bonus |
| 04/04/2011 | Renaissance BJM Securities | 796 577 | 216 | Specific issue in lieu of fees |
| 17/02/2011 | Public Investment Corporation | 46 666 666 | 150 | General use of shares for cash |
| 15/02/2011 | C de Beer | 632 916 | 29 | Share options exercised |
| 09/11/2010 | Stanlib Asset Managers Limited | 8 000 000 | 170 | General issue of shares for cash |
| 28/09/2010 | Stanlib Asset Managers Limited | 40 000 000 | 62.5 | General issue of shares for cash |
| 22/09/2010 | Metropolitan Asset Management Limited | 46 000 000 | 50 | General issue of shares for cash |
| 22/09/2010 | Columbia Falls Properties 114 (Proprietary) Limited | 4 867 200 | 74 | Acquisition of 50 per cent of the entire issued share capital of SacOil (Proprietary) Limited |
| 22/09/2010 | Kulsum Moosa Family Trust | 2 704 000 | 74 | Acquisition of 50 per cent of the entire issued share capital of SacOil (Proprietary) Limited |
| 22/09/2010 | Encha Group Limited | 201 884 800 | 74 | Acquisition of 50 per cent of the entire share capital of SacOil (Proprietary) Limited |
| 13/09/2010 | Kulsum Moosa Family Trust | 1 700 000 | 60 | General issue of shares for cash |
| 29/07/2010 | GVM Metals Administration (South) Africa (Proprietary) Limited | 8 343 216 | 30 | Specific issue of shares for cash |

Refer to note 20 of the group financial statements for a reconciliation of the number of shares in issue for the period under review.

## Directors

Details of the Company's directors can be found on pages 11 and 12 of this report.

## Directors' interests in shares

Directors' shareholdings are set out in the shareholder information section on page 61 of this annual report and details of options granted to directors are set out in note 29 of the annual report.

Directors' interests in the issued capital of the Company as at the date of this report are as follows:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Direct beneficial** | **% of issued capital** | Direct beneficial | % of issued capital |
| Colin Bird | **8 502 610** | **1,24** | 5 300 000 | 1,7 |
| Bradley Cerff | **150 000** | **0,02** | – | – |
| Carina de Beer | **200 000** | **0,03** | – | – |
| Robin Vela | **11 939 196** | **1,75** | – | – |
| | **20 791 806** | **3,04** | 5 300 000 | 1,7 |

For directors' interests as at year end refer to page 61 of this annual report.

## Segmental information

The Group's business model has not advanced to a stage where accurate and meaningful segmental information can be presented.

Currently, the only operation generating revenue is the Greenhills plant, which is a non-core asset. Sales for the year are as follows:

| | **Group and Company** | | | |
|---|---|---|---|---|
| | **Year ended 28 February 2011** | **%** | Year ended 28 February 2010 | % |
| Export sales | **20 233 436** | **58** | 19 266 528 | 61 |
| Local sales | **14 909 683** | **42** | 12 457 244 | 39 |
| | **35 143 119** | **100** | 31 723 773 | 100 |

## Litigation

### Mr Modibane/SacOil

The Company previously reported on two actions instituted by Joseph Modibane in the North Gauteng High Court. In his first action, Joseph Modibane alleges that he was entitled to receive 105 000 000 SacOil Ordinary Shares at an issue price of 30 cents per Ordinary Share but that the Company unlawfully declined to deliver the SacOil Ordinary Shares to him. Joseph Modibane further alleges that in consequence of the Company's alleged unlawful conduct he is entitled to claim damages from the Company in the amount of R67,2 million.

In a second action, Joseph Modibane alleges that the content of the announcement made by the Company on 15 September 2010 in relation to the first action, was defamatory to him and claims payment from the Company of damages in the amount of R80,0 million.

Having regard to the information in its possession at the date of this report, the Board is of the view that each of the aforementioned claims is without factual foundation and has no substance. The Company has instructed its South African legal representatives, Norton Rose South Africa, to defend the actions. Pleadings closed many months ago and Mr Modibane had taken no steps to progress the actions that he instituted. The Company's legal representatives were therefore instructed to enquire from Mr Modibane whether he intended to persist with the actions. His lawyers have confirmed that he intends doing so. The Company's legal representatives have therefore

# Directors' report continued

been instructed to proceed with the necessary pre-trial notices, so that a pre-trial conference can in due course be arranged and applications for trial dates can then be made.

### Identiguard

The Company previously reported on the application instituted by Identiguard International (Proprietary) Limited (Identiguard) against SacOil (Proprietary) Limited, an entity in which the Company owns 50 per cent of the issued share capital. Identiguard obtained a judgment against the DRC Government for outstanding amounts due to it by the DRC Government. In partial execution of that judgement, Identiguard sought to attach the payment of the supplementary signature bonus (US$2,0 million) under the Block III Production Sharing Agreement that was concluded between SacOil (Proprietary) Limited and the DRC Government. Despite SacOil (Proprietary) Limited's opposition to the application, the South Gauteng High Court has now delivered judgement in favour of Identiguard and authorised the notice of attachment. The South Gauteng High Court also ordered SacOil (Proprietary) Limited to pay the costs of the application. The South Gauteng High Court dismissed an application by SacOil (Proprietary) Limited to file an affidavit to place further information before the court. We are of the view that the inclusion of this affidavit could have had a material impact on the outcome of the matter.

SacOil (Proprietary) Limited instructed its South African legal representatives, Norton Rose South Africa, to apply for leave to appeal against the South Gauteng High Court judgement. The application for leave to appeal was timeously delivered and we are waiting for a date for the hearing of the application for leave to appeal to be allocated.

## Subsequent events

### Divestment of 60 per cent interest in Block III

1. Farm-in agreement with Total ("the Agreement")

   On 1 March 2011, Semliki, a company incorporated in the DRC, which in turn holds the oil concession rights pertaining to Block III and Total, entered into the Agreement in terms of which Semliki agreed to farm out 60 per cent of the Block III Interest to Total for an initial consideration of US$15,0 million. Of the US$15,0 million SacOil received a total cash consideration of US$9,0 million on 31 March 2011, which includes a settlement by Divine Inspiration Group (Proprietary) Limited of the loan owed to SacOil in an amount of US$1,4 million. This loan is disclosed in note 15 to the group financial statements.

   The Agreement makes provision for Semliki to receive a bonus payment of US$58,0 million in the event that the First Investment Decision ("FID") date is achieved and for a second bonus payment of US$50,0 million in the event that the First Oil Date is achieved. Total in its capacity as operator of Block III undertakes to use its reasonable endeavours to ensure that:

   (i) the FID Date is achieved within three years of the date upon which all the conditions precedent to the transaction have been fulfilled or waived or such date as agreed upon between SacOil and Total ("Completion Date"); and

   (ii) the First Oil Date is achieved within two years of the FID Date.

   In terms of the Agreement Total undertook to carry Semliki's 40 per cent share of costs incurred pursuant to the provisions of the Block III Production Sharing Agreement and the Block III Joint Operating Agreement, provided that Total is entitled to recover such costs and interest thereon from Semliki's entire share of cost oil and 80 per cent of Semliki's share of profit oil under the Block III Joint Operating Agreement up to FID. Total further undertook to effect payment of the Block III Cession Bonus to the DRC Government within three business days of the Completion Date.

   *1.1 Rationale*

   Semliki has entered into the Agreement because SacOil has been seeking an operational partner to assist with the evaluation and exploration of the Block III rights. The Board believes that engaging one of the super oil majors, such as Total, will give the Company access to the skills and technical expertise necessary to successfully advance the exploration of Block III. Total has not only the skills and expertise but also the operational capacity to fulfil this role.

   The implementation of the Agreement will expedite the exploration of Block III and significantly de-risk SacOil in respect of commercialising the Block III rights, executing the Block III Work Programme and the financial risk in relation to the funding of the operations of Block III since Total will be the operator. The implementation of the Agreement will also permit cash flow to be released from the transaction which can be utilised to fund the Company's Nigerian activities.

   In terms of the Agreement, Total, in its capacity as operator, will use its reasonable endeavours to ensure that one exploration well is drilled by the

Block III Contractant before 31 December 2012 or by the earliest possible date thereafter. Total has the necessary infrastructure including pipelines in place to extract and supply crude oil.

The DRC Minister of Hydrocarbons approved the transfer of the Block III Interest to Total and the appointment of Total as the operator of Block III, subject to the condition of payment of the Block III Cession Bonus, which Bonus was timeously paid by Total to the DRC government.

*1.2 Potential value to SacOil*

The Board is of the view that, due to the nature of the Agreement, it is not possible to accurately assess the accretion of value to SacOil pursuant to the Agreement; however, in evaluating the merits of the Agreement, the Board has considered the following:

- In aggregate, US$61,5 million will be paid by Total to SacOil by the First Oil Date;
- It estimates the quantum of SacOil's share of the Carried Costs in relation to the exploration costs to be in the region of US$35,0 million;
- The Directors believe the value of SacOil's residual effective 12,5 per cent interest in the Block III Rights will be considerably higher with the assistance of Total, in comparison to the value that its previous effective 42,5 per cent interest in the Block III Rights would have in the absence of the Total Agreement; and
- The Competent Person's Report dated 24 February 2011 produced by Bayphase Limited in relation to SacOil's interest in Block III, values the Total farm-in to Block III to SacOil on a cost approach basis on completion as US$128,9 million.

2. Secondary listing of Company's shares on AIM

On 8 April 2011, the Company successful gained admission to AIM. The Board's rationale for listing on AIM was to:

*2.1 Gain access to global capital*

The AIM market is the single largest market for capital for oil and gas junior companies, raising some US$6 billion for them in 2010. The second largest market, the Toronto Stock Exchange, raised about 20 per cent of this amount for companies in the same bracket, for the same period. For a company with an ambitious growth strategy such as SacOil, it was necessary to be listed on an appropriate exchange to enable the Company, at the right time, to access this capital.

*2.2 Procure analysts' reports on Company and its assets*

The Company felt it necessary to have external independent analysts evaluate the company's assets and structure in comparison with its peers. Being listed on AIM would enable the Company to achieve this and to date various analyst reports have been issued showing their view on the Company and its assets.

*2.3 Enhance the Company's profile*

The profile of the Company would be enhanced by being on the AIM market, enabling the Company to transact with global peers who would be more easily able to analyse the Company with an AIM listing.

3. Strengthening of the Company's core oil and gas industry technical expertise

The Company appointed Messrs. John Bentley and Bill Guest as non-executive directors of the Company with individually over 25 years' global technical, operational, managerial expertise in the oil and gas industry.

The Company also appointed Bradley Cerff as Vice President with effect 9 May 2011. Bradley joined from PetroSA where he held the position of Regional Manager for East and West Africa. Bradley has over 15 years' experience in the oil and gas Industry and will be responsible for bringing to account the Company's existing assets in the short term. Bradley has managed teams and assets in all the African oil producing countries including Nigeria. He has also drilled a number of exploration and production wells, developed and produced oil in, *inter alia*, Nigeria.

## Special resolutions passed

During the period under review, the Company passed a special resolution to authorise the Company or its directors or any of its subsidiaries, to, by way of general authority, repurchase shares issued by the Company.

# Statements of comprehensive income

for the year ended 28 February 2011

| | | Group | | Company | |
|---|---|---|---|---|---|
| Figures in Rand | Note(s) | **2011** | 2010 | **2011** | 2010 |
| Revenue | | **35 143 119** | 31 723 773 | **35 143 119** | 31 723 773 |
| Cost of sales | | **(23 615 391)** | (20 210 322) | **(23 615 391)** | (20 210 322) |
| **Gross profit** | | **11 527 728** | 11 513 451 | **11 527 728** | 11 513 451 |
| Operating costs | | **(7 327 123)** | (5 773 614) | **(7 328 326)** | (5 773 614) |
| **Profit from manganese operations** | | **4 200 605** | 5 739 837 | **4 199 402** | 5 739 837 |
| Corporate head office costs | | **(4 021 128)** | (1 952 922) | **(3 492 920)** | (1 952 922) |
| Corporate action costs | | **(24 680 393)** | (2 417 403) | **(24 680 393)** | (2 417 403) |
| Share-based payment expense | | **(4 178 928)** | – | **(4 178 928)** | – |
| **Operating (loss)/profit** | 3 | **(28 679 844)** | 1 369 512 | **(28 152 839)** | 1 369 512 |
| Investment income | 4 | **1 271 134** | 730 995 | **1 271 134** | 730 995 |
| Finance costs | 5 | **(17 309)** | (13 039) | **(17 309)** | (13 039) |
| Fair value adjustments | 8 | **(2 228 776)** | (3 016 226) | **(2 760 739)** | (3 129 721) |
| **Loss before taxation** | | **(29 654 795)** | (928 758) | **(29 659 753)** | (1 042 253) |
| Taxation | 9 | **(95 200)** | 894 657 | **(95 200)** | 894 657 |
| **Loss for the year** | | **(29 749 995)** | (34 101) | **(29 754 953)** | (147 596) |
| **Other comprehensive (loss)/income:** | | | | | |
| Gains and losses on property revaluation | | **(340 000)** | 3 195 204 | **(340 000)** | 3 195 204 |
| Taxation related to components of other comprehensive income | | **95 200** | (894 657) | **95 200** | (894 657) |
| **Other comprehensive (loss)/income for the year net of taxation** | 10 | **(244 800)** | 2 300 547 | **(244 800)** | 2 300 547 |
| **Total comprehensive (loss)/income** | | **(29 994 795)** | 2 266 446 | **(29 999 753)** | 2 152 951 |
| **Total comprehensive (loss)/income attributable to:** | | | | | |
| Owners of the parent | | **(29 994 795)** | 2 266 446 | **(29 999 753)** | 2 152 951 |
| **Per share information** | | | | | |
| Basic (loss)/earnings per share (cents) | 25 | **(6,67)** | 0,72 | | |
| Diluted (loss)/earnings per share (cents) | 25 | **(6,21)** | 0,72 | | |

# Statements of financial position

as at 28 February 2011

| | | Group | | Company | |
|---|---|---|---|---|---|
| Figures in Rand | Note(s) | **2011** | 2010 | **2011** | 2010 |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 11 | **6 644 269** | 7 640 047 | **6 644 269** | 7 640 047 |
| Intangible assets | 12 | **394 641 967** | – | **–** | – |
| Deferred tax | 16 | **799 457** | 894 657 | **799 457** | 894 657 |
| Investments in subsidiaries | 13 | **–** | – | **161 499 441** | 318 292 |
| Loans to group companies | 14 | **–** | – | **70 628 959** | – |
| Other financial assets | 15 | **45 086 969** | – | **45 086 969** | – |
| | | **447 172 662** | 8 534 704 | **284 659 095** | 8 852 996 |
| **Current assets** | | | | | |
| Inventories | 17 | **2 408 476** | 2 304 768 | **2 408 476** | 2 304 768 |
| Other financial assets | 15 | **11 413 375** | 27 866 821 | **11 413 375** | 27 866 821 |
| Trade and other receivables | 18 | **6 317 846** | 3 772 291 | **6 308 575** | 3 761 291 |
| Cash and cash equivalents | 19 | **17 898 834** | 6 997 863 | **17 733 464** | 6 832 493 |
| | | **38 038 531** | 40 941 743 | **37 863 890** | 40 765 373 |
| **Total assets** | | **485 211 193** | 49 476 447 | **322 522 985** | 49 618 369 |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | | | | | |
| **Equity attributable to equity holders of parent** | | | | | |
| Share capital | 20 | **374 029 488** | 83 725 538 | **374 029 488** | 83 725 538 |
| Reserves | | **29 988 331** | 26 054 203 | **29 988 331** | 26 054 203 |
| Accumulated loss | | **(96 199 385)** | (66 449 390) | **(96 317 838)** | (66 562 885) |
| | | **307 818 434** | 43 330 351 | **307 699 981** | 43 216 856 |
| Non-controlling interest | 27 | **161 760 089** | – | **–** | – |
| | | **469 578 523** | 43 330 351 | **307 699 981** | 43 216 856 |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Finance lease obligation | 22 | **–** | 107 533 | **–** | 107 533 |
| Provisions | 23 | **945 972** | 825 972 | **945 972** | 825 972 |
| | | **945 972** | 933 505 | **945 972** | 933 505 |
| **Current liabilities** | | | | | |
| Other financial liabilities | 21 | **–** | 2 502 964 | **–** | 2 502 964 |
| Finance lease obligation | 22 | **90 508** | 137 955 | **90 508** | 137 955 |
| Trade and other payables | 24 | **13 796 733** | 1 677 015 | **12 987 067** | 1 932 432 |
| Deferred tax | 16 | **799 457** | 894 657 | **799 457** | 894 657 |
| | | **14 686 698** | 5 212 591 | **13 877 032** | 5 468 008 |
| **Total liabilities** | | **15 632 670** | 6 146 096 | **14 823 004** | 6 401 513 |
| **Total equity and liabilities** | | **485 211 193** | 49 476 447 | **322 522 985** | 49 618 369 |
| Number of shares in issue | | **674 090 410** | 313 291 614 | **674 090 410** | 313 291 614 |
| Net asset value per share (cents) | | **69,57** | 13,83 | **45,65** | 13,79 |
| Net tangible asset value per share (cents) | | **11,03** | 13,83 | **45,65** | 13,79 |

# Statements of changes in equity

| Figures in Rand | Share capital | Revaluation reserve/ (recycle reserve) | Reserves for own shares/ Share repurchase reserve | Total reserves | Accumulated loss | Total attributable to equity holders of the group/ Company | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **Balance at 1 March 2009** | 83 725 538 | – | 23 753 656 | 23 753 656 | (66 415 289) | 41 063 905 | – | 41 063 905 |
| Changes in equity | | | | | | | | |
| Total comprehensive income for the year | – | 2 300 547 | – | 2 300 547 | (34 101) | 2 266 446 | – | 2 266 446 |
| Total changes | – | 2 300 547 | – | 2 300 547 | (34 101) | 2 266 446 | – | 2 266 446 |
| **Balance at 1 March 2010** | **83 725 538** | **2 300 547** | **23 753 656** | **26 054 203** | **(66 449 390)** | **43 330 351** | **–** | **43 330 351** |
| Changes in equity | | | | | | | | |
| Total comprehensive income for the year | **–** | **(244 800)** | **–** | **(244 800)** | **(29 749 995)** | **(29 994 795)** | **–** | **(29 994 795)** |
| Issue of shares | **290 303 950** | **–** | **–** | **–** | **–** | **290 303 950** | **–** | **290 303 950** |
| Share options issued | **–** | **–** | **4 178 928** | **4 178 928** | **–** | **4 178 928** | **–** | **4 178 928** |
| Business combinations | **–** | **–** | **–** | **–** | **–** | **–** | **161 760 089** | **161 760 089** |
| Total changes | **290 303 950** | **(244 800)** | **4 178 928** | **3 934 128** | **(29 749 995)** | **264 488 083** | **161 760 089** | **426 248 172** |
| **Balance at 28 February 2011** | **374 029 488** | **2 055 747** | **27 932 584** | **29 988 331** | **(96 199 385)** | **307 818 434** | **161 760 089** | **469 578 523** |
| Note(s) | 20 | 10 | | | 10 | | | |
| **Company** | | | | | | | | |
| **Balance at 1 March 2009** | 83 725 538 | – | 23 753 656 | 23 753 656 | (66 415 289) | 41 063 905 | – | 41 063 905 |
| Changes in equity | | | | | | | | |
| Total comprehensive income for the year | – | 2 300 547 | – | 2 300 547 | (147 596) | 2 152 951 | – | 2 152 951 |
| Total changes | – | 2 300 547 | – | 2 300 547 | (147 596) | 2 152 951 | – | 2 152 951 |
| **Balance at 1 March 2010** | **83 725 538** | **2 300 547** | **23 753 656** | **26 054 203** | **(66 562 885)** | **43 216 856** | **–** | **43 216 856** |
| Changes in equity | | | | | | | | |
| Total comprehensive income for the year | **–** | **(244 800)** | **–** | **(244 800)** | **(29 754 953)** | **(29 999 753)** | **–** | **(29 999 753)** |
| Issue of shares | **290 303 950** | **–** | **–** | **–** | **–** | **290 303 950** | **–** | **290 303 950** |
| Share options issued | **–** | **–** | **4 178 928** | **4 178 928** | **–** | **4 178 928** | **–** | **4 178 928** |
| Total changes | **290 303 950** | **(244 800)** | **4 178 928** | **3 934 128** | **(29 754 953)** | **264 483 125** | **–** | **264 483 125** |
| **Balance at 28 February 2011** | **374 029 488** | **2 055 747** | **27 932 584** | **29 988 331** | **(96 317 838)** | **307 699 981** | **–** | **307 699 981** |
| Note(s) | 20 | 10 | | | 10 | | | |

# Statements of cash flows

| | | Group | | Company | |
|---|---|---|---|---|---|
| Figures in Rand | Note(s) | **2011** | 2010 | **2011** | 2010 |
| **Cash flows from operating activities** | | | | | |
| Cash used in operations | 26 | **(23 049 439)** | (275 385) | **(22 522 438)** | (8 967) |
| Interest income | | **1 271 134** | 730 995 | **1 271 134** | 475 814 |
| Finance costs | | **(17 309)** | (13 039) | **(17 309)** | (13 039) |
| **Net cash from operating activities** | | **(21 795 614)** | 442 571 | **(21 268 613)** | 453 808 |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | 11 | **–** | (262 658) | **–** | (262 657) |
| Purchase of other intangible assets | 12 | **(54 474 700)** | – | **–** | – |
| Movement in investments (including subsidiaries, joint ventures and associates) | | **–** | – | **–** | (318 292) |
| **Net cash from investing activities (including subsidies, joint ventures and associates)** | | **(54 474 700)** | (262 658) | **–** | (580 949) |
| **Cash flows from financing activities** | | | | | |
| Proceeds on share issue | 20 | **132 803 546** | – | **132 803 546** | – |
| Finance lease payments | | **(154 980)** | 107 533 | **(154 980)** | 107 533 |
| Increase in loans receivable | | **(45 477 281)** | (145 436) | **(100 478 982)** | (3 751) |
| **Net cash from financing activities** | | **87 171 285** | (37 903) | **32 169 584** | 103 782 |
| **Total cash movement for the year** | | **10 900 971** | 142 010 | **10 900 971** | (23 360) |
| Cash at the beginning of the year | | **6 997 863** | 6 855 853 | **6 832 493** | 6 855 853 |
| **Total cash at the end of the year** | 19 | **17 898 834** | 6 997 863 | **17 733 464** | 6 832 493 |

# Accounting policies

## 1. Basis of preparation

The annual financial statements of the group for the year ended 28 February 2011 have been prepared in accordance with the group's accounting policies, which comply with International Financial Reporting Standards as well as the AC500 standards as issued by the Accounting Practices Board or its successor, the Listings Requirements of the JSE Limited, the AIM Rules for Companies and the Companies Act of South Africa and are consistent with those of the previous year. These financial statements have been prepared on a going concern basis.

### 1.1 Consolidation

#### Basis of consolidation

The consolidated annual financial statements incorporate the consolidated annual financial statements of the Company and all entities, including special purpose entities, which are controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries are included in the consolidated annual financial statements from the effective date of acquisition to the effective date of disposal.

The subsidiaries have the same reporting periods as that of the holding company.

Adjustments are made when necessary to the consolidated annual financial statements of subsidiaries to bring their accounting policies in line with those of the group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognised separately from the group's interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

Transactions which result in changes in ownership levels, where the group has control of the subsidiary both before and after the transaction, are regarded as equity transaction and are recognised directly in the statement of changes in equity.

The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognised in equity attributable to the owners of the parent.

Where a subsidiary is disposed of and a non-controlling shareholding is retained, the remaining investment is measured to fair value with the adjustment to fair value recognised in profit or loss as part of the gain or loss on disposal of the controlling interest.

#### Business combinations

The group accounts for business combinations using the acquisition method of accounting. The cost of the business combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued. Costs directly attributable to the business combination are expensed as incurred, except the costs to issue debt which are amortised as part of the effective interest and costs to issue equity which are included in equity.

Contingent consideration is included in the cost of the combination at fair value as at the date of acquisition. Subsequent changes to the assets, liability or equity which arise as a result of the contingent consideration are not effected against goodwill, unless they are valid measurement period adjustments.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the recognition conditions of IFRS 3 Business combinations are recognised at their fair values at acquisition date, except for non-current assets (or disposal group) that are classified as held-for-sale in accordance with IFRS 5 Non-current assets held-for-sale and discontinued operations, which are recognised at fair value less costs to sell.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date.

On acquisition, the group assesses the classification of the acquiree's assets and liabilities and reclassifies them where the classification is inappropriate for group purposes. This excludes lease agreements and insurance contracts, whose classification remains as per their inception date.

Non-controlling interests arising from a business combination are measured either at their share of the fair value of the assets and liabilities of the acquiree or at fair value. The treatment is not an accounting policy choice but is selected for each individual business combination, and disclosed in the note for business combinations.

In cases where the group held a non-controlling shareholding in the acquiree prior to obtaining control, that interest is measured to fair value as at acquisition date. The measurement to fair value is included in profit or loss for the year. Where the existing shareholding was classified as an available-for-sale financial asset, the cumulative fair value adjustments recognised previously to other comprehensive income and accumulated in equity are recognised in profit or loss as a reclassification adjustment.

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest and less the fair value of the identifiable assets and liabilities of the acquiree.

Goodwill is not amortised but is tested on an annual basis for impairment. If goodwill is assessed to be impaired, that impairment is not subsequently reversed.

Goodwill arising on acquisition of foreign entities is considered an asset of the foreign entity. In such cases the goodwill is translated to the functional currency of the group at the end of each reporting period with the adjustment recognised in equity through to other comprehensive income.

## 1.2 Investments in subsidiaries

### Company consolidated annual financial statements

In the Company's separate consolidated annual financial statements, investments in subsidiaries are carried at fair value and are classified as available for sale.

The cost of an investment in a subsidiary is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Company; plus
- any costs directly attributable to the purchase of the subsidiary.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

## 1.3 Significant estimates

In preparing the consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the consolidated annual financial statements. Significant estimates include:

### Options granted

Management used the Black-Scholes model to determine the value of the options at issue date. Additional details regarding the estimates are included in the note 29 – Share-based payments.

### Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price.

### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and intangible assets.

The group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash

# Accounting policies continued

flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill, tangible and intangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including commodity prices and currency fluctuations, together with economic factors such as inflation and interest rates.

### Decommissioning and site rehabilitation estimates

Provision is made for the costs of decommissioning and site rehabilitation costs when the related environmental disturbance takes place. Provisions are recognised at the net present value of future expected costs as outlined in note 1.11.

The provision recognised represents management's best estimate of the costs that will be incurred, but significant judgement is required as many of these costs will not crystallise until the end of the life of the mine. Estimates are reviewed annually and are based on current regulatory requirements and the estimated useful life of mines. Engineering and feasibility studies are undertaken periodically, however significant changes in the estimates of contamination, restoration standards and techniques will result in changes to provisions from period to period.

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 23 – Provisions.

### Contingent provisions on business combinations

Contingencies recognised in the current year required estimates and judgments, refer to note 27 on business combinations.

### Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the group to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

### Unit of production depreciation

Depreciation is charged using the units-of-production method, with separate calculations being made for each area of interest. The units-of-production basis results in a depreciation charge proportional to the depletion of proved and probable reserves

## 1.4 Financial instruments

### Initial recognition and measurement

The group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the group's statement of financial position when the group becomes party to the contractual provisions of the instrument and are recognised initially at fair value. In the case of financial assets or liabilities not classified as at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added to the fair value.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. An asset that is

subsequently measured at cost or amortised cost is recognised initially at its fair value on the trade date. With regard to assets carried at fair value, the change in fair value will be recognised in profit or loss or in equity, as appropriate.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the group has a legal right to set off the recognised amounts and intends to either settle on a net basis or to realise the asset and the liability simultaneously.

### Subsequent measurement

After initial recognition financial assets are measured as follows:

- Loans and receivables are measured at amortised cost using the effective interest method;
- Cash and cash equivalents are measured at fair value; and
- Financial assets at fair value through profit and loss and available-for-sale assets are measured at fair value.

After initial recognition financial liabilities are measured as follows:

- Other financial liabilities are measured at amortised cost using the effective interest method.

### Fair value

The value of financial assets and liabilities carried at fair value are based on current observable market data, or are based on a valuation technique the variables of which include only market observable data. Where these quoted bid prices are unavailable, the fair value of financial assets and financial liabilities is estimated using pricing models or discounted cash flow techniques. Discounted cash flow techniques are based on management's best estimated future cash flows and market-related discount rates as at year end date for similar termed instruments. Pricing models use inputs from market-related measures at year end date.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

### Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

### Amortised cost

For financial instruments carried at amortised cost, time value of money is not considered to be material as the carrying value of the instruments approximate their fair values, no discounting is applied.

### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through profit and loss is recognised in profit or loss;
- With respect to financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

### Derecognition of financial assets and liabilities

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

# Accounting policies continued

Financial liabilities are derecognised from the statement of financial position when the obligation is discharged or expires.

### Impairment of financial assets

An impairment loss is the difference between the financial asset's carrying amount and its recoverable amount and is recognised in profit or loss.

Financial assets are considered to be impaired if objective evidence indicates one or more events have had a negative effect on the estimated future cash flows of that asset.

### Calculation of recoverable amount

The recoverable amount of the group's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets).

### Loans to/(from) group companies

These include loans to and from holding companies, fellow subsidiaries, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to group companies are classified as loans and receivables.

Loans from group companies are classified as financial liabilities measured at amortised cost.

### Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other receivables are classified as loans and receivables.

### Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

### Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the group's accounting policy for borrowing costs.

## 1.5 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by means of the first in first out basis or weighted average cost basis. Costs, including an appropriate portion of fixed and variable overhead costs, are assigned to inventories using the method most appropriate to the particular class of inventory. Methods used are:

- Raw materials are valued at the lower of cost or net realisable value.
- Product in progress is valued at the lower of cost or net realisable value.

- Engineering stock is valued at cost on a moving average basis.
- Final products are valued at the moving average cost including materials, direct labour and an appropriate portion of fixed and variable overhead costs.

Net realisable value is the estimated selling price less estimated costs of completion and marketing, selling and distribution costs. Provision is made for obsolete, slow moving or defective items where appropriate.

### 1.6 Share capital and equity

Stated capital is recognised at the fair value of the consideration received by the Company. Ordinary shares are classified as equity and any dividends are discretionary. Dividends are recognised as distributions within equity in the period in which they are payable.

### 1.7 Revenue

Revenue is recognised at the fair value of the consideration received or receivable to the extent that it is probable that economic benefits will flow to the group and it can be reliably measured.

#### Revenue

The sale of mining products is recognised when the significant risks and rewards of ownership of the products are transferred to the buyer.

#### Interest Income

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

#### Dividend Income

Dividend income is recognised when the right to receive payment is established.

### 1.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 1.9 Tax

#### Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities/(assets) for the current and prior periods are measured at the amount expected to be paid to/(recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

#### Deferred tax assets and liabilities

Deferred tax (assets)/liabilities are measured at the tax rates that are expected to apply to the period when the (asset) is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax (assets) are recognised to the extent that it is probable that future taxable profit will be available against which the (asset) can be utilised.

A deferred tax (asset) and/or liability is recognised through equity on the potential unrealised capital gains and/or losses from available for sale financial assets.

The carrying amount of deferred tax (assets) is reviewed at each period end and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

#### Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

# Accounting policies continued

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income; or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

### 1.10 Provisions and contingencies

Provisions are recognised when:

- the group has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

### 1.11 Environmental expenditure

The group has long-term decommissioning and rehabilitation liabilities in relation to its environmental management plans, in compliance with current environmental and regulatory requirements.

#### Decommissioning costs

The provision for decommissioning represents the cost that will be incurred to rectify environmental damage. Accordingly an asset is recognised and included in property, plant and equipment. Decommissioning costs are provided at the present value of the costs estimated to settle the obligation. Expert evaluation is used to estimate the quantum of such costs. The unwinding of the decommissioning obligation is included in profit or loss. Estimated future costs of decommissioning are reviewed regularly and adjusted as appropriate for new evidence or changes in legislation or technology. Changes in estimates are capitalised or reversed against the relevant assets. Gains or losses on the expected disposal of mining assets are not taken into account when estimating the costs.

#### Rehabilitation costs

The provision for rehabilitation represents the cost of restoring site damage after the commencement of mining activities. Provision for costs are charged to profit or loss as a cost of production. Expert evaluation together with management judgement is used to estimate the quantum of such costs.

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by exploration, evaluation, development or ongoing production. Costs are estimated on the basis of a formal closure plan and are subject to regular review.

Decommissioning and site rehabilitation costs arising from the installation of plant and other site preparation work, discounted to their net present value, are provided when the obligation to incur such costs arises and are capitalised into the cost of the related asset. These costs are charged against profits through depreciation of the asset and unwinding of the discount on the provision. Depreciation is included in operating costs while the unwinding of the discount is included as a financing cost. Changes in the measurement of a liability relating to the decommissioning or site rehabilitation of plant and other site preparation work are added to, or deducted from, the cost of the related asset.

The costs for the restoration of site damage, which arises during production, are provided at their net present values and charged against operating profits as extraction progresses. Changes in the measurement of a liability which arises during production are charged against operating profit.

The discount rate used to measure the net present value of the obligations is the pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the obligation.

### 1.12 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the Company; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment, the estimate of the dismantling costs and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Items of property, plant and equipment are subsequently stated at revaluation value less accumulated depreciation and accumulated impairment losses. Assets forming part of the long-term infrastructure of mining operations including buildings, plant and equipment, roads and dams are depreciated evenly over the remaining useful life of the mining operation. Depreciation on mining assets begins when it is available for use. An asset becomes available for use when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The revaluation value of an item of property, plant and equipment is the item's fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Mineral rights and mining claims which are exploited are valued at historical cost and are amortised over their estimated useful lives using the unit-of-production method. Mineral rights and mining claims which are not being exploited are not amortised.

Depreciation is calculated on the straight-line method to write off the cost of each asset, or the revalued amounts, to their residual values over their estimated useful lives. The depreciation rates applicable to each category of property plant and equipment are as follows:

| Item | Average useful life |
|---|---|
| Buildings | 10 years |
| Motor vehicles | 5 years |
| Office equipment | 3 years |
| Plant and equipment | 10 years |

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.13 Intangible assets

Intangible assets consists of exploration and evaluation expenditure.

Exploration and evaluation expenditure incurred prior to obtaining an exploration licence is recognised in profit and loss.

Exploration and evaluation expenditure is capitalised as an intangible asset if incurred after obtaining an exploration licence. To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset.

Capitalised costs include costs directly related to exploration and evaluation activities in the relevant area of interest. General

# Accounting policies continued

and administrative costs are allocated to an exploration or evaluation asset only to the extent that those costs can be related directly to operational activities in the relevant area of interest.

Capitalised exploration and evaluation expenditure is written off where the exploration licence expired or if the exploration and evaluation of the relevant area indicated no technical feasibility and commercial viability of extracting a mineral resource.

Identifiable exploration assets acquired are recognised as assets at their fair value, as determined by the requirements of IFRS 3 Business combinations. Exploration and evaluation expenditure incurred subsequent to the acquisition of an exploration asset in a business combination is accounted for in accordance with the policy outlined above.

All capitalised exploration and evaluation expenditure is assessed for impairment if facts and circumstances indicate that impairment may exist. Exploration and evaluation assets are also tested for impairment once commercial reserves are found, before the assets are transferred to capital work-in-progress.

No amortisation is recognised in respect of exploration and evaluation expenditure.

### 1.14 Capital work-in-progress

Capital work-in-progress incurred by or on behalf of the group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Capital work-in-progress comprises cost directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the carrying amount of the exploration and evaluation expenditure in respect of the area of interest is aggregated with the capital work-in-progress and classified under intangible assets as “Capital work-in-progress”. Further capital work-in-progress incurred is classified under either intangible assets or property, plant and equipment depending on the nature of the expenses. Capital work-in-progress is reclassified as a “mining property” at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management.

No amortisation is recognised in respect of capital work-in-progress until they are reclassified as “mining properties”.

Capital work-in-progress is tested for impairment in accordance with the policy in note 1.19.

### 1.15 Mining properties

When further expenditure is incurred in respect of a mining property after the commencement of production, such expenditure is carried forward as part of the mining property when it is probable that additional future economic benefits associated with the expenditure will flow to the consolidated entity. Otherwise such expenditure is classified as a cost of production.

Mining properties are classified under property, plant and equipment.

Depreciation is charged using the units-of-production method, with separate calculations being made for each area of interest. The units-of-production basis results in a depreciation charge proportional to the depletion of proved and probable reserves. Mine properties are tested for impairment in accordance with the policy in note 1.19.

The useful life and residual value of the mining properties are reassessed at the reporting date.

### 1.16 Share-based payments

Certain employees and/or directors of the Company, as determined by the directors, from time to time are participants of the Share Option Scheme only if and to the extent that options are granted to such persons pursuant to the Scheme.

Equity-settled share-based payments are measured at fair value at the date of grant in the case of directors. In the case of transactions with employees the value of the services rendered and the corresponding increase in equity is measured indirectly, by reference to the fair value of the equity instruments granted. The equity-settled share-based payments are expensed to profit or loss on a straight-line basis over the vesting period based on the group’s estimate of shares that will eventually vest. Vesting conditions, other than market conditions, are not taken into account when estimating the fair value of the share options at the grant date.

The fair value is determined using the Black-Scholes model which is then discounted to take into account the inherent limitations of this model as well as the lack of marketability of the options.

### 1.17 Employee benefits

#### Defined contribution plans

The Company contributes towards a defined contribution plan under which contributions are paid to a third party. Once contributions have been made, the Company has no further payment obligations. The contributions are recognised in profit or loss when they are due.

### 1.18 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

#### Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

### 1.19 Impairment of assets

The group assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the group estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the group also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period; and
- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is

# Accounting policies continued

allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
- then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

## 1.20 Translation of foreign currencies

### Functional and presentation currency

Items included in the consolidated annual financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates (functional currency).

The consolidated annual financial statements are presented in Rand which is the group functional and presentation currency.

### Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rand, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

### At the end of the reporting period:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous consolidated annual financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Rand by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

### Investments in subsidiaries, joint ventures and associates

The results and financial position of a foreign operation are translated into the functional currency using the following procedures:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each item of profit or loss are translated at exchange rates at the dates of the transactions; and
- All resulting exchange differences are recognised to other comprehensive income and accumulated as a separate component of equity.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognised initially to other comprehensive income and accumulated in the

translation reserve. They are recognised in profit or loss as a reclassification adjustment through to other comprehensive income on disposal of net investment.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation.

The cash flows of a foreign subsidiary are translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

# Notes to the consolidated annual financial statements

## 2. New Standards and Interpretations

The aggregate impact of the initial application of the statements and interpretations on the group's consolidated annual financial statements is expected to be as follows:

Adoption of new accounting standards, amendments to standards and interpretations

The group and company have adopted the following statements and interpretations:

Accounting standard/interpretation Type Description

IAS 32: (Amendment): Financial Instruments: Presentation – Classification of Rights Issues.

IFRS 2: (Amendment): Share-based Payments – Group Cash-settled Share-based Payment Transactions.

IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments (New interpretation).

IAS 1: Presentation of Financial Statements (Amendment Effective for financial periods beginning on or after 1 July 2012).

IAS 12: Income Taxes – Deferred Tax: Recovery of Underlying Assets (Amendment Effective for financial periods beginning on or after 1 January 2012).

IAS 19: Employee Benefits (Amendment Effective for financial periods beginning on or after 1 January 2013).

IAS 24: (Revised): Related Party Disclosures Amendment Effective for financial periods beginning on or after 1 January 2011.

IAS 27: Separate Financial Statements (Amendment Effective for financial periods beginning on or after 1 January 2013).

IAS 28: Investments in Associates and Joint Ventures (Amendment Effective for financial periods beginning on or after 1 January 2013).

IFRS 7: (Amendment): Financial Instruments: Disclosures – Transfer of Financial Assets (Amendment Effective for financial periods beginning on or after 1 July 2011).

IFRS 9: Financial Instruments (New Effective for financial periods beginning on or after 1 January 2013).

IFRS 10: Consolidated Financial Statements (New Effective for financial periods beginning on or after 1 January 2013).

IFRS 11: Joint Arrangements (New Effective for financial periods beginning on or after 1 January 2013).

IFRS 12: Disclosure of Interest in Other Entities (New Effective for financial periods beginning on or after 1 January 2013).

IFRS 13: Fair Value Measurement (New Effective for financial periods beginning on or after 1 January 2013).

IFRIC 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayment of minimum funding requirements (Amendment Effective for financial periods beginning on or after 1 January 2011).

Improvements to IFRSs 2010. Each improvement has its own effective date but the earliest is 1 July 2010.

At the date of issue of these financial statements, the following standards and interpretations were in issue but not effective yet.

IAS 1: (Amendment) Presentation of Financial Statements – The amendment requires entities to separate items presented in other comprehensive income (OCI) into two groups based on whether or not they may be recycled to profit or loss in the future.

IAS 12: (Amendment) Income Taxes – Deferred Tax: Recovery of Underlying Assets.

IAS 19: (Amendment) Employee Benefits.

IAS 24: (Revised): Related Party Disclosures.

IAS 27: (Amended) Separate Financial Statements.

IAS 28: (Amended) Investments in Associates and Joint Ventures.

IFRS 7: (Amendment): Financial Instruments: Disclosures – Transfer of Financial Assets.

IFRS 9: Financial Instruments.

IFRS 9: (Amendment): Financial Instruments – The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 10: Consolidated Financial Statements.

IFRS 11: Joint Arrangements.

IFRS 12: Disclosure of Interest in Other Entities.

IFRS 13: Fair Value Measurement.

IFRIC 14: (Amendment): The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

Improvements to IFRSs 2010 – Improvements to IFRS is a collection of amendments to International Financial Reporting Standards (IFRS). These amendments are the result of conclusions the board reached on proposals made in its annual improvements project.

The directors believe that none of the new or revised statements and revised interpretations will have a significant effect on the group's accounting policies.

## 3. Operating (loss)/profit

Operating (loss)/profit for the year is stated after accounting for the following:

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Rand | **2011** | 2010 | **2011** | 2010 |
| **Operating lease charges** | | | | |
| Premises | | | | |
| • Contractual amounts | **124 479** | 35 368 | **124 479** | 35 368 |
| Depreciation on property, plant and equipment | **655 778** | 655 599 | **655 778** | 655 599 |
| Employee costs | **4 813 140** | 3 776 218 | **4 813 140** | 3 776 218 |

## 4. Investment income

| | | | | |
|---|---|---|---|---|
| **Interest revenue** | | | | |
| Interest received – cash and cash equivalents | **1 271 134** | 730 995 | **1 271 134** | 730 995 |

## 5. Finance costs

| | | | | |
|---|---|---|---|---|
| Trade and other payables | **460** | 1 073 | **460** | 1 073 |
| Bank | **154** | 4 | **154** | 4 |
| Finance leases | **16 695** | 11 962 | **16 695** | 11 962 |
| | **17 309** | 13 039 | **17 309** | 13 039 |

## 6. Directors' emoluments

| | Group and Company |
|---|---|
| | **For services as director** |
| **Executive** | |
| **2011** | |
| Robin Vela | **1 695 000** |
| Colin Bird | **151 249** |
| Carina de Beer | **562 500** |
| | **2 408 749** |
| **2010** | |
| Robin Vela | 1 202 868 |

No benefits or bonuses were paid to any executive director during the period under review. Amounts paid represents basic salaries only.

| | |
|---|---|
| **Non-executive** | |
| **2011** | |
| Richard Linnell (Chairman) | **236 667** |
| Colin Bird | **105 000** |
| Gontse Moseneke | **130 000** |
| | **471 667** |
| **2010** | |
| Richard Linnell (Chairman) | 180 000 |
| Colin Bird | 180 000 |
| Brian Christie | 60 000 |
| Gontse Moseneke | 60 000 |
| | 480 000 |

### Details of service contracts

Refer to the Directors' report for details on directors' interests and note 29 for details on share-based payments.

No post-employment, long-term or termination benefits were paid.

# Notes to the consolidated annual financial statements
continued

| Figures in Rand | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **7. Auditors' remuneration** | | | | |
| Fees for audit services | **190 000** | 193 877 | **190 000** | 193 877 |
| **8. Fair value adjustments** | | | | |
| Impairment of loans receivable | **–** | (3 016 226) | **–** | (3 129 721) |
| Fair value loss on revaluation of monetary investments | **(104 516)** | – | **(104 516)** | – |
| Exchange differences on revaluation of foreign loans receivable | **(2 124 260)** | – | **(2 656 223)** | – |
| | **(2 228 776)** | (3 016 226) | **(2 760 739)** | (3 129 721) |
| **9. Taxation** | | | | |
| **Major components of the tax expense/(income)** | | | | |
| **Deferred** | | | | |
| Arising from previously unrecognised tax loss | **95 200** | (894 657) | **95 200** | (894 657) |
| **Reconciliation of the tax expense** | | | | |
| Reconciliation between applicable tax rate and average effective tax rate. | | | | |
| Applicable tax rate (%) | **28,00** | 28,00 | **28,00** | 28,00 |
| Permanent differences (%) | **(14,08)** | (22,00) | **(14,08)** | (0,70) |
| Deferred tax asset not recognised (%) | **(13,92)** | (6,00) | **(13,92)** | (27,30) |
| Average effective tax rate (%) | **–** | – | **–** | – |
| Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset has been recognised | **43 481 893** | 26 865 273 | **43 481 893** | 26 865 273 |

No provision has been made for 2011 tax as the group has no taxable income. The estimated tax loss available for set off against future taxable income is R43 481 893 (2010: R28 488 670).

| | Gross | Tax | Net |
|---|---|---|---|
| **10. Other comprehensive income** | | | |
| **Components of other comprehensive income** | | | |
| **Group and Company – 2011** | | | |
| **Movements on revaluation** | | | |
| Recycling of fair value gain on revaluation of property, plant and equipment | **(340 000)** | **95 200** | **(244 800)** |
| **Components of other comprehensive income** | | | |
| **Group and Company – 2010** | | | |
| **Movements on revaluation** | | | |
| Fair value gain on revaluation of property, plant and equipment | 3 195 204 | (894 657) | 2 300 547 |

## 11. Property, plant and equipment

| | 2011 Cost/ valuation | 2011 Accumulated depreciation/ recycling of revaluation | 2011 Carrying value | 2010 Cost/ valuation | 2010 Accumulated depreciation | 2010 Carrying value |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Buildings | **5 369 960** | **(671 185)** | **4 698 775** | 5 369 960 | – | 5 369 960 |
| Plant and equipment | **1 892 737** | **(250 144)** | **1 642 593** | 1 892 737 | – | 1 892 737 |
| Motor vehicles | **340 000** | **(68 000)** | **272 000** | 340 000 | – | 340 000 |
| Computer equipment | **19 350** | **(6 449)** | **12 901** | 19 350 | – | 19 350 |
| Mining claims | **18 000** | **–** | **18 000** | 18 000 | – | 18 000 |
| Total | **7 609 028** | **(995 778)** | **6 644 269** | 7 640 047 | – | 7 640 047 |

## 11. Property, plant and equipment continued

| Figures in Rand | 2011 Cost/ valuation | 2011 Accumulated depreciation/ recycling of revaluation | 2011 Carrying value | 2010 Cost/ valuation | 2010 Accumulated depreciation | 2010 Carrying value |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| Buildings | **5 369 960** | **(671 185)** | **4 698 775** | 5 369 960 | – | 5 369 960 |
| Plant and equipment | **1 892 737** | **(250 144)** | **1 642 593** | 1 892 737 | – | 1 892 737 |
| Motor vehicles | **340 000** | **(68 000)** | **272 000** | 340 000 | – | 340 000 |
| Computer equipment | **19 350** | **(6 449)** | **12 901** | 19 350 | – | 19 350 |
| Mining claims | **18 000** | **–** | **18 000** | 18 000 | – | 18 000 |
| Total | **7 609 028** | **(995 778)** | **6 644 269** | 7 640 047 | – | 7 640 047 |

**Reconciliation of property, plant and equipment – Group and Company – 2011**

| | Opening balance | Depreciation/ recycling of revaluation | Total |
|---|---|---|---|
| Buildings | **5 369 960** | **(671 185)** | **4 698 775** |
| Plant and equipment | **1 892 737** | **(250 144)** | **1 642 593** |
| Motor vehicles | **340 000** | **(68 000)** | **272 000** |
| Computer equipment | **19 350** | **(6 449)** | **12 901** |
| Mining claims | **18 000** | **–** | **18 000** |
| | **7 640 047** | **(995 778)** | **6 644 269** |

**Reconciliation of property, plant and equipment – Group and Company – 2010**

| | Opening balance | Additions | Transfers/ revaluation | Depreciation | Total |
|---|---|---|---|---|---|
| Buildings | – | – | 5 369 960 | – | 5 369 960 |
| Plant and equipment | 4 614 231 | – | (2 111 822) | (609 672) | 1 892 737 |
| Motor vehicles | – | 262 657 | 103 973 | (26 630) | 340 000 |
| Computer equipment | 34 794 | – | 3 853 | (19 297) | 19 350 |
| Mining claims | 18 000 | – | – | – | 18 000 |
| Decommissioning costs | 170 758 | – | (170 758) | – | – |
| | 4 837 783 | 262 657 | 3 195 206 | (655 599) | 7 640 047 |

| | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **Pledged as security** | | | | |
| Carrying value of assets pledged as security: | | | | |
| Motor vehicles | **200 000** | 217 098 | **200 000** | 217 098 |

A motor vehicle with a book value of R200 000 (2010: R217 098) is subject to an instalment sale obligation. Refer note 22 for details of such obligations.

# Notes to the consolidated annual financial statements
continued

## 11. Property, plant and equipment continued

### Revaluations

At 28 February 2010, the Company revalued its property, plant and equipment. The valuation was done by an independent valuer, estimating the value of the assets using a combination of replacement values, the researched second hand values, usage values as well as estimated liquidation values in order to estimate the current market values.
The carrying value of the revalued assets under the cost model would have been:

| Figures in Rand | Total |
|---|---|
| Mining claims | 18 000 |
| Plant and equipment | 3 394 885 |
| Motor vehicles | 209 401 |
| Office equipment | – |
| Total | 3 622 286 |

A register containing the information required by paragraph 22(3) of Schedule 4 of the Companies Act is available for inspection at the registered office of the Company.

The Company did not revalue its property, plant and equipment at 28 February 2011.

## 12. Intangible assets

| | **2011** | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Cost/ valuation** | **Accumulated depreciation** | **Carrying value** | Cost/ valuation | Accumulated depreciation | Carrying value |
| **Group** | | | | | | |
| Exploration and evaluation assets | **394 641 967** | **–** | **394 641 967** | – | – | – |

**Reconciliation of intangible assets – Group – 2011**

| | **Opening balance** | **Additions** | **Additions through business combinations** | **Total** |
|---|---|---|---|---|
| Exploration and evaluation asset – DRC Block III | **–** | **–** | **342 967 267** | **342 967 267** |
| Exploration and evaluation asset – Nigeria OPL281 | **–** | **47 712 172** | **–** | **47 712 172** |
| Exploration and evaluation asset – Nigeria OPL233 | **–** | **3 962 528** | **–** | **3 962 528** |
| | **–** | **51 674 700** | **342 967 267** | **394 641 967** |

### Block III

Block III is situated in the Albertine Graben, DRC and comprises an area of 3,177 km², which is mostly lowland (Semliki river plain) and is flanked by rift margins. Block III is on trend with Lake Albert discoveries in Uganda. The largest discovery in the Escarpment/Near-shore Play is Kingfisher (200MMbbl) and the largest discovery in the Victoria Nile Delta Play is Giraffe-Buffalo (300MMbbl) ("plays"). Block III is expected to contain both plays.

There is currently no conventional data (such as gravity/magnetic, seismic, well data, etc.) available for this block, as it is in the earliest stages of exploration. Therefore, individual prospects and leads could not be defined. However, the block is expected to contain a continuation of a hydrocarbon play identified and tested elsewhere in the Albertine Graben. Accordingly, the block currently does not include reserves or contingent resources, but it is anticipated that it may contain prospective resources.

The prospectivity of this play in Block III was estimated by Bayphase for the block as a whole, using the probabilistic Monte Carlo method. A range of field and reservoir parameters (such as gross rock volume, porosity, etc.) from analogous fields, most notably (but not limited to) those in the discoveries made in the Ugandan part of the Albertine Graben, were used as an input into the model. The analysis produced a probabilistic range of hydrocarbon resources. For the Competent Person's Report on Block III please visit: *http://www.SacOilholdings.com/o/files/SacOil-Block3-AIM-CPR-feb2011.pdf*

### Nigeria OPL281

Oil concession block 281 is an onshore block covering some 138 km², and is located in the western delta region of Nigeria approximately 25 km due east from the Forcados terminal. Two discovery wells were drilled, namely Obote-I in 1970 which encountered hydrocarbons at four levels between 8 720 ft and 12 350 ft, while Ekoro-I drilled in 1967 discovered eight hydrocarbon sands between 8 260 ft and 10 761 ft. It has discovered but undeveloped oil and gas assets with an estimated recoverable Contingent Resource for the block of 100 mmboe (P50 as reported by TRACS, an oil and gas industry recognised independent expert) and a peak potential production rate of up to 30 000 bbls/d.

## 12. Intangible assets continued

### Nigeria OPL281 continued

Following two exploration stages to 1 January 2013, SacOil will obtain a 20 per cent paying working interest and a 30 per cent participation interest in the contractor share for production volumes up to 50 mmbbls, reducing to 20 per cent once production exceeds this level. During the exploration stages SacOil will carry a substantial part of the exploration and appraisal expenditure, which requires a minimum work programme of US$30mln/phase, to include two wells and some 3D seismic acquisition and/or seismic reprocessing.

As a result, TRACS International Consultancy Limited ("TRACS") can report that the 2C best estimate unrisked contingent resources on OPL281 are estimated at 99,2 MMbbls, and the corresponding Net 2C best estimate unrisked Contingent Resources attributable to SacOil once the farm-in is completed is estimated at 14,5 MMbbls. The Net 2C best estimate risked Contingent Resources attributable to SacOil is estimated at 8,7 MMbbls. For the Competent Person's Report on OPL281 please visit *http://www.sacoilholdings.com/o/files/SacOil-OPL281-CPR-feb2011.pdf*

### Nigeria OPL233

Oil concession block 233 in Nigeria is located offshore in the shallow water area of the Niger Delta. It has discovered but undeveloped oil and gas assets. Oil concession block 233 is a 126 km² block with a water depth of less than 30 ft and is located immediately off the coast of the central delta region of Nigeria, some 120 km due south-southeast from the Forcados terminal. The block is adjacent to giant Apoi field (>600 MMbo). The TRACS petrophysical interpretation of the Olobia-I well-logs indicates 103 ft of net oil and 54 ft of gas and condensate across five reservoir zones in the well. Most of the block is unevaluated by seismic surveys and the company considers there to be considerable upside potential in this oil concession.

Following two exploration stages to 1 January 2014, SacOil will obtain a 20 per cent paying working interest and a 30 per cent participation interest in the contractor share for production volumes up to 50 mmbbls, reducing to 20 per cent once production exceeds this level. During the first exploration stage, SacOil will carry a substantial part of the exploration and appraisal expenditure, which requires a minimum work programme comprising one well and 100 km² ocean bottom cable seismic data. The work programme for the second exploration phase has not yet been defined as it is contingent on the results of the Phase I programme.

As a result, TRACS has reported that the 2C best estimate unrisked contingent resources on OPL233 are estimated at 19,0 MMbbls, and the corresponding net 2C best estimate unrisked contingent resources attributable to SacOil once the farm-in is completed is estimated at 3,8 MMbbls. The net 2C best estimated risked contingent resources attributable to SacOil is estimated at 1,5 MMbbls. For the Competent Person's Report on OPL 233 please visit *http://www.sacoilholdings.com/o/files/SacOil-OPL233-CPR-feb2011.pdf*

## 13. Investments in subsidiaries

| Figures in Rand<br>Name of company | Country of incorporation | **% holding 2011** | % holding 2010 | **Carrying amount 2011 R** | Carrying amount 2010 R |
|---|---|---|---|---|---|
| SacOil (Proprietary) Limited | RSA | **50** | – | **50** | – |
| Pioneer Coal (Proprietary) Limited | RSA | **100** | 100 | **318 292** | 318 292 |
| Baltimore Manganese Mine (Proprietary) Limited | RSA | **100** | 100 | **1** | – |
| RDK Mining (Proprietary) Limited | RSA | **100** | 100 | **100** | 100 |
| Bushveld Pioneer (Proprietary) Limited | RSA | **100** | 100 | **100** | 100 |
| Semliki | DRC | **50** | – | **160 598 340** | – |
| Sacoil 141 Nigeria Limited | Nigeria | **100** | – | **561** | – |
| Sacoil 281 Nigeria Limited | Nigeria | **100** | – | **561** | – |
| Sacoil 233 Nigeria Limited | Nigeria | **100** | – | **561** | – |
| | | | | **160 918 566** | 318 492 |

The carrying amounts of subsidiaries are shown net of impairment losses where applicable.

SacOil holds all the investments, directly and indirectly at the given percentages. SacOil has effective control over all subsidiaries in which it holds 50 per cent through management.

# Notes to the consolidated annual financial statements
continued

| Figures in Rand | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **14. Loans to/(from) group companies** | | | | |
| **Subsidiaries** | | | | |
| Sacoil 141 Nigeria Limited[1] | – | – | **536 129** | – |
| SacOil 233 Nigeria Limited[1] | – | – | **3 971 469** | – |
| SacOil 281 Nigeria Limited[1] | – | – | **47 160 461** | – |
| SacOil (Proprietary) Limited (refer note 15) | – | – | **16 160 000** | – |
| Semliki[2] | – | – | **2 800 000** | – |
| Baltimore Manganese Mines (Proprietary) Limited | – | – | **450** | – |
| Bushveld Pioneer (Proprietary) Limited | – | – | **450** | – |
| | – | – | **70 628 959** | – |

[1] *In terms of a Master Joint Venture Agreement entered into between SacOil and EER, SacOil shall raise the finance for all acquisition costs. 50 per cent of these costs represent loans to SacOil's wholly owned Nigerian subsidiaries. These loans are interest free, unsecured and have no repayment terms.*

[2] *The loan to Semliki was made by SacOil to fund its obligations to the DRC Government in terms of the Block III Production Sharing Contract. The loan bears no interest and has no repayment terms.*

### Fair value of loans

The carrying amount of these loans approximates its fair value.

### Credit quality

The credit quality of these loans that are neither past due nor impaired can be assessed as high.

| | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **15. Other financial assets** | | | | |
| **Loans and receivables** | | | | |
| DIG Oil | **11 413 375** | 11 706 821 | **11 413 375** | 11 706 821 |
| EER | **45 086 969** | – | **45 086 969** | – |
| SacOil (Proprietary) Limited | – | 16 160 000 | – | 16 160 000 |
| | **56 500 344** | 27 866 821 | **56 500 344** | 27 866 821 |
| **Non-current assets** | | | | |
| Loans and receivables | **45 086 969** | – | **45 086 969** | – |
| **Current assets** | | | | |
| Loans and receivables | **11 413 375** | 27 866 821 | **11 413 375** | 27 866 821 |
| | **56 500 344** | 27 866 821 | **56 500 344** | 27 866 821 |

The loan to DIG Oil was settled in cash on 31 March 2011. The loan to SacOil (Proprietary) Limited represents a loan in relation to the Block III restructuring that was approved by shareholders on 20 September 2010. For more details on these loans kindly visit http://www.sacoilholdings.com/im/files/listing/aim_admission_14apr2011.pdf.

In terms of a Master Joint Venture Agreement entered into between SacOil and EER, SacOil shall raise the finance for all acquisition costs. From the date upon which the Joint Venture starts recovering all Opex and/or Capex costs and any acquisition costs that it is entitled to recover in relation to any asset from their entitlement to petroleum, SacOil shall be entitled to recover 50 per cent of the acquisition costs plus a pre-agreed cost of capital in three equal annual instalments, the first of such instalments becoming due within 60 business days after first oil production by taking that proportion of EER's entitlement to petroleum from that asset that equals one third of the outstanding acquisition costs plus a pre-agreed cost of capital.

| Figures in Rand | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **16. Deferred tax** | | | | |
| **Deferred tax asset** | | | | |
| Revaluation, net of related depreciation | **(799 457)** | (894 657) | **(799 457)** | (894 657) |
| Tax losses available for set off against future taxable income | **799 457** | 894 657 | **799 457** | 894 657 |
| | **–** | – | **–** | – |
| **Reconciliation of deferred tax asset/(liability)** | | | | |
| Increase/(decrease) in tax losses available for set off against future taxable income | **(95 200)** | 894 657 | **(95 200)** | 894 657 |
| Originating temporary difference on revaluation of property | **95 200** | (894 657) | **95 200** | (894 657) |
| | **–** | – | **–** | – |

### Recognition of deferred tax asset

An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

- the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and
- the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

| | 2011 | 2010 | 2011 | 2010 |
|---|---|---|---|---|
| **Unrecognised deferred tax asset** | | | | |
| Unused tax losses not recognised as deferred tax assets | **43 481 893** | 26 865 273 | **43 481 893** | 26 865 273 |
| **17. Inventories** | | | | |
| Raw materials | **457 447** | 374 290 | **457 447** | 374 290 |
| Product in process | **321 825** | 446 298 | **321 825** | 446 298 |
| Engineering stock | **1 111 841** | 889 743 | **1 111 841** | 889 743 |
| Finished product | **517 363** | 594 437 | **517 363** | 594 437 |
| | **2 408 476** | 2 304 768 | **2 408 476** | 2 304 768 |
| **18. Trade and other receivables** | | | | |
| Trade and other receivables | **5 037 955** | 3 578 192 | **5 036 854** | 3 578 192 |
| Value Added Tax | **1 279 891** | 194 099 | **1 271 721** | 183 100 |
| | **6 317 846** | 3 772 291 | **6 308 575** | 3 761 292 |
| The Company's anchor client maintained their production levels during the economic downturn, and orders from them for manganese sulphate powder are continuing as normal. During the period under review more than 10% of the Company's revenues were derived from the anchor customer. The following revenues were received for the period under review from this customer: | | | | |
| Anchor client revenue | **19 000 381** | 17 974 485 | **19 000 381** | 17 974 485 |

# Notes to the consolidated annual financial statements
continued

## 18. Trade and other receivables continued

### Trade and other receivables past due but not impaired

Trade and other receivables which are less than 1 month past due are not considered to be impaired.
At 28 February 2011, R578 193 (2010: R316 711) were past due but not impaired.
The ageing of amounts past due but not impaired is as follows:

| Figures in Rand | 2011 | 2010 |
|---|---|---|
| 1 month past due | **210 945*** | 316 711 |
| 2 months past due | **243 481*** | – |
| 3 months past due | **123 766** | – |

** These amounts were due by the same customer and the delay in settlement of outstanding payments was caused by the customer adopting a new accounting system. Both amounts were subsequently settled.*

### Trade and other receivables impaired

As at 28 February 2011 no trade and other receivables were impaired and provided for.

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **19. Cash and cash equivalents** | | | | |
| Cash and cash equivalents consist of: | | | | |
| Bank balances | **846 719** | 1 579 213 | **681 349** | 1 413 843 |
| Short-term deposits | **17 052 115** | 5 418 650 | **17 052 115** | 5 418 650 |
| | **17 898 834** | 6 997 863 | **17 733 464** | 6 832 493 |

The group has no drawn overdraft facilities. It has a US$6 million undrawn debt facility with Renaissance BJM Securities (Proprietary) Limited (South Africa).

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **20. Stated capital** | | | | |
| **Authorised** | | | | |
| Number of ordinary shares with no par value | **10 000 000 000** | 10 000 000 000 | **10 000 000 000** | 10 000 000 000 |
| **Issued** | | | | |
| **Reconciliation of the number of shares in issue:** | | | | |
| Reported as at 1 March 2010 | **313 291 614** | 313 291 614 | **313 291 614** | 313 291 614 |
| Issue of shares for cash | **142 999 580** | – | **142 999 580** | – |
| Issue of shares to acquire assets | **209 456 000** | – | **209 456 000** | – |
| Issue of shares to repay loans (Note 21) | **8 343 216** | – | **8 343 216** | – |
| **Reported as at 28 February 2011** | **674 090 410** | 313 291 614 | **674 090 410** | 313 291 614 |
| **Stated capital (R)** | **374 029 488** | 83 725 538 | **374 029 488** | 83 725 538 |

In terms of a resolution passed by shareholders at the last Annual General Meeting the unissued share capital is under the control of the Board.

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **21. Other financial liabilities** | | | | |
| **Held at amortised cost** | | | | |
| GVM Metals Administration (South Africa) (Proprietary) Limited ("GVM") | – | 2 502 964 | – | 2 502 964 |

On 5 July 2010 SacOil signed a settlement agreement with GVM to issue 8 343 216 ordinary shares to GVM at an issue price of 30 cents per ordinary share and an aggregate issue price of R2 502 964. The 8 343 216 ordinary shares were issued to GVM in full and final settlement of a loan owing by SacOil to GVM in relation to restructuring expenses paid for on behalf of SacOil during 2008.

| Figures in Rand | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **21. Other financial liabilities** continued | | | | |
| **Current liabilities** | | | | |
| At amortised cost | – | 2 502 964 | – | 2 502 964 |

| | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **22. Finance lease obligation** | | | | |
| **Minimum lease payments due** | | | | |
| – within one year | **93 516** | 155 724 | **93 516** | 155 724 |
| – in second to fifth year inclusive | – | 109 862 | – | 109 862 |
| | **93 516** | 265 586 | **93 516** | 265 586 |
| *Less*: Future finance charges | **(3 008)** | (20 098) | **(3 008)** | (20 098) |
| **Present value of minimum lease payments** | **90 508** | 245 488 | **90 508** | 245 488 |
| **Present value of minimum lease payments due** | | | | |
| – within one year | **90 508** | 137 955 | **90 508** | 137 955 |
| – in second to fifth year inclusive | – | 107 533 | – | 107 533 |
| | **90 508** | 245 488 | **90 508** | 245 488 |
| Non-current liabilities | – | 107 533 | – | 107 533 |
| Current liabilities | **90 508** | 137 955 | **90 508** | 137 955 |
| | **90 508** | 245 488 | **90 508** | 245 488 |

The group's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 11.

## 23. Provisions

**Reconciliation of provisions – Group and Company – 2011**

| | Opening balance | Additions | Total |
|---|---|---|---|
| Provision for environmental rehabilitation | **825 972** | **120 000** | **945 972** |
| **Reconciliation of provisions – Group and Company – 2010** | | | |
| Provision for environmental rehabilitation | 705 972 | 120 000 | 825 972 |

Rehabilitation expenditure is largely expected to take place at the end of the respective mine lives, which vary from 10 – 15 years.

The provision for rehabilitation represents the estimated cost of restoring site damage after the commencement of mining activities. The provision for rehabilitation costs in an amount of R120 000 is charged to profit or loss.

In terms of an environmental evaluation done on the plant, the cost of rehabilitating the environment will be approximately R1,6 million in order to restore the site damage after the commencement and completion of mining activities.

# Notes to the consolidated annual financial statements
continued

| Figures in Rand | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **24. Trade and other payables** | | | | |
| Trade payables | **5 833 181** | 1 332 342 | **4 765 219** | 1 330 062 |
| Other payables | **7 963 552** | 344 673 | **8 221 848** | 602 370 |
| | **13 796 733** | 1 677 015 | **12 987 067** | 1 932 432 |

Included in other payables is an amount of R7,6 million in relation to an additional signature bonus payable to the DRC government in terms of its investment in Block III. This amount was paid after year end.

| | Group 2011 | Group 2010 |
|---|---|---|
| **25. Earnings per share** | | |
| Basic (loss)/earnings per share (cents) | **(6,67)** | 0,72 |
| Diluted (loss)/earnings per share (cents) | **(6,21)** | 0,72 |
| Basic and diluted (loss)/earnings per share were based on a loss of R29 995 996 (2010: earnings of R2 266 446). | | |
| Weighted average number of ordinary shares used to calculate basic (loss)/earnings per share: | **449 628 622** | 313 291 614 |
| *Add:* Dilutive share options | **33 304 511** | – |
| Weighted average number of ordinary shares used to calculate diluted (loss)/earnings per share | **482 933 133** | 313 291 614 |
| **Headline (loss)/earnings and diluted headline (loss)/earnings per share** | | |
| Headline earnings per share and diluted headline earnings per share are determined by dividing headline earnings and diluted headline earnings by the weighted average number of ordinary share outstanding during a period. | | |
| Headline (loss)/earnings per share (cents) | **(6,62)** | 0,95 |
| Diluted headline (loss)/earnings per share (cents) | **(6,16)** | 0,95 |
| **Reconciliation of headline (loss)/earnings** | | |
| Loss for the year | **(29 749 995)** | (34 101) |
| Adjusted for: | | |
| Impairment of loans receivable | **–** | 3 016 226 |
| **Headline (loss)/earnings** | **(29 749 995)** | 2 982 125 |

**Dividends per share**

The Board has resolved not to declare any dividend to shareholders for this reporting period.

| | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **26. Cash used in operations** | | | | |
| Loss before taxation | **(29 654 795)** | (928 758) | **(29 659 753)** | (1 042 253) |
| **Adjustments for:** | | | | |
| Depreciation and amortisation | **655 778** | 655 599 | **655 778** | 655 599 |
| Interest received | **(1 271 134)** | (730 995) | **(1 271 134)** | (730 995) |
| Finance costs | **17 309** | 13 039 | **17 309** | 13 039 |
| Fair value adjustments | **2 124 260** | 3 016 226 | **2 656 223** | 3 129 721 |
| Movements in provisions | **120 000** | 120 000 | **120 000** | 120 000 |
| Share-based payment expense | **4 175 928** | – | **4 175 928** | – |
| **Changes in working capital:** | | | | |
| Inventories | **(103 706)** | (256 616) | **(103 706)** | (256 616) |
| Trade and other receivables | **(2 547 282)** | (174 015) | **(2 547 281)** | (163 015) |
| Trade and other payables | **3 434 203** | (1 989 865) | **3 434 198** | (1 734 447) |
| | **(23 049 439)** | (275 385) | **(22 522 438)** | (8 967) |

| Figures in Rand | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **27. Business combinations** | | | | |
| **Semliki** | | | | |
| **27.1 Fair value of assets acquired and liabilities assumed** | | | | |
| Intangible assets | **340 167 267** | – | **–** | – |
| Other financial liabilities | **(16 740 875)** | – | **–** | – |
| Trade and other payables | **(1 067 963)** | – | **–** | – |
| Total identifiable net assets | **322 358 429** | – | **–** | – |
| Non-controlling interest | **(161 760 089)** | – | **–** | – |
| | **160 598 340** | – | **–** | – |

### 27.2 Non-controlling interest

Non-controlling interest is measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

### 27.3 Equity issued as part of consideration paid

On 22 July 2010 SacOil entered into a sale of shares agreement in terms of which SacOil acquired from the SacOil (Proprietary) Limited Vendors 50 per cent of the entire issued share capital of, and all claims of the SacOil (Proprietary) Limited Vendors against, SacOil (Proprietary) Limited on the date that all the conditions precedent have been met, for a consideration of R439 857 600 to be settled through the issue of 209 456 000 ordinary shares at an issue price of 210 cents per ordinary share. The fair value of the shares issued to the vendors is 74 cents per ordinary share being the market price of SacOil ordinary shares the day before the announcement of the transaction, being 23 July 2010.

### 27.4 Acquisition related costs

These costs have been expensed in the year of acquisition and are included in comprehensive income.

For full details on the Company's investment in Block III please refer to: http://www.sacoilholding.com/im/files/listing/aim_admission_14apr2011.pdf.

## 28. Related parties

| Relationship | Related party | Nature of payment |
|---|---|---|
| Subsidiaries | Refer to note 14 | Refer to note 14 |
| Shareholder with significant influence | Encha Group Limited | Administration fee |
| Entity of which the directors are also directors of that entity | Lonsa (Proprietary) Limited | Director's remuneration |

| | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|
| **Related party transactions** | | | | |
| **Administration fees paid to related parties** | | | | |
| Encha Group Limited* | **179 553** | 180 000 | **179 553** | 180 000 |
| **Fees for services by Robin Vela as executive director** | | | | |
| Lonsa (Proprietary) Limited | **1 695 000** | 1 202 868 | **1 695 000** | 1 202 868 |

**No further fees were paid to Encha after the period under review.*

# Notes to the consolidated annual financial statements
continued

## 29. Share-based payments

| | Number |
|---|---|
| Outstanding at the beginning of the year | **41 986 136** |
| Granted during the year | **10 464 446** |
| Exercised during the year | **(632 916)** |
| Outstanding at the end of the year | **51 817 666** |
| Exercisable at the end of the year | **46 585 443** |

| Outstanding options | Exercise date within one year | Exercise date from one to five years | Total |
|---|---|---|---|
| Options with exercise price 82,15 (cents) | 41 986 136 | – | 41 986 136 |
| Options with exercise price from 29 (cents) | 7 215 419 | 2 616 112 | 9 831 531 |

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Rand | **2011** | 2010 | **2011** | 2010 |
| **Information on options granted during the year** | | | | |
| Weighted fair value of options issued during the year | **4 178 928** | – | **4 178 928** | – |

Fair value was determined by using the Black Scholes Merton Valuation Model. The following inputs were used:

- Weighted average share price: 45 cents
- Exercise price 29 cents
- Expected volatility 116,17%
- Option life Between 5 and 6 years
- Expected dividends Nil
- The risk-free interest rate 8%

Total expenses of R4 178 928 (2010: R–) related to equity-settled share-based payments transactions were recognised in 2011 and 2010 respectively.

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous five years, being a period generally commensurate with the expected term of the options. The expected life has been determined based on the contractual life of the options, exercise restrictions and behavioural considerations. The only vesting conditions are that the employees remain in the employ of the Company for a specified period. The are no features or performance conditions that require specific disclosure.

At 28 February 2010, the directors held 41 986 136 share options as follows:

| Name | Number of options | Option price (cents) | Fair value (cents) | Date granted |
|---|---|---|---|---|
| R Vela | 8 397 227 | 82,15 | 57,00 | 21-Nov-08 |
| B Christie – Resigned 31 August 2009 | 8 397 227 | 82,15 | 57,00 | 21-Nov-08 |
| C Bird | 12 595 841 | 82,15 | 57,00 | 21-Nov-08 |
| R Linnell | 12 595 841 | 82,15 | 57,00 | 21-Nov-08 |
| Total | 41 986 136 | | | |

At 28 February 2011, the directors held 51 817 666 share options as follows:

| Name | **Number of options** | **Option price (cents)** | **Fair value (cents)** | **Date granted** |
|---|---|---|---|---|
| R Vela | **8 397 227** | **82,15** | **57,00** | **21-Nov-08** |
| R Vela | **4 198 614** | **29,00** | **40,00** | **8-July-10** |
| B Christie – Resigned 31 August 2009 | **8 397 227** | **82,15** | **57,00** | **21-Nov-08** |
| C Bird | **12 595 841** | **82,15** | **57,00** | **21-Nov-08** |
| R Linnell | **12 595 841** | **82,15** | **57,00** | **21-Nov-08** |
| G Moseneke | **3 132 916** | **29,00** | **40,00** | **8-July-10** |
| C de Beer (Exercised 632 916 options on 15 Nov 10)* | **2 500 000** | **29,00** | **40,00** | **8-July-10** |
| **Total** | **51 817 666** | | | |

** No other directors exercised any share options during the period under review.*

## 29. Share-based payments continued

On 20 September 2010 the Company adopted a new share option scheme which scheme provides for a maximum aggregate number of 115 418 366 ordinary shares in the issued share capital of the Company to be issued in terms of the amended share option scheme and a maximum aggregate number of 28 854 541 ordinary shares in the issued capital of the Company to be issued to any one participant.

In addition to the above amendments and in compliance with Schedule 14 of the Listings Requirements, the proposed amendments to the share option scheme include the following material conditions:

- a participant must be an employee of the Company to qualify;
- options are granted at the discretion of the Board;
- if any participant leaves the employment of the Company or resigns as Executive Director, all of the options that may become exercisable on or after the date of termination will lapse immediately;
- in compliance with the King Report on Governance for South Africa 2009, non-executive directors do not qualify as participants in terms of the amended share option scheme.

## 30. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

| Figures in Rand | Loans and receivables | Available-for-sale | Total |
|---|---|---|---|
| **Group – 2011** | | | |
| Other financial assets | **56 500 344** | **–** | **56 500 344** |
| Trade and other receivables | **5 037 955** | **–** | **5 037 955** |
| Cash and cash equivalents | **–** | **17 898 834** | **17 898 834** |
| | **61 538 299** | **17 898 834** | **79 437 133** |
| **Group – 2010** | | | |
| Other financial assets | 27 866 821 | – | 27 866 821 |
| Trade and other receivables | 3 578 192 | – | 3 578 192 |
| Cash and cash equivalents | – | 6 997 863 | 6 997 863 |
| | 31 445 013 | 6 997 863 | 38 442 876 |

| | Loans and receivables | Available-for-sale | Total |
|---|---|---|---|
| **Company – 2011** | | | |
| Other financial assets | **56 500 344** | **–** | **56 500 344** |
| Trade and other receivables | **5 036 854** | **–** | **5 036 854** |
| Cash and cash equivalents | **–** | **17 733 464** | **17 733 464** |
| | **61 537 198** | **17 733 464** | **79 270 662** |
| **Company – 2010** | | | |
| Other financial assets | 27 866 821 | – | 27 866 821 |
| Trade and other receivables | 3 578 192 | – | 3 578 192 |
| Cash and cash equivalents | – | 6 832 493 | 6 832 493 |
| | 31 445 013 | 6 832 493 | 38 277 506 |

# Notes to the consolidated annual financial statements
continued

## 31. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

| Figures in Rand | Financial liabilities at amortised cost | Total |
|---|---|---|
| **Group – 2011** | | |
| Trade and other payables | **13 796 783** | **13 796 783** |
| Finance lease obligations | **90 508** | **90 508** |
| | **13 887 241** | **13 887 241** |
| **Group – 2010** | | |
| Other financial liabilities | 2 502 964 | 2 502 964 |
| Trade and other payables | 1 677 015 | 1 677 015 |
| Finance lease obligations | 245 488 | 245 488 |
| | 4 425 467 | 4 425 467 |
| **Company – 2011** | | |
| Trade and other payables | **12 987 067** | **12 987 067** |
| Finance lease obligations | **90 508** | **90 508** |
| | **13 077 575** | **13 077 575** |
| **Company – 2010** | | |
| Other financial liabilities | 2 502 964 | 2 502 964 |
| Trade and other payables | 1 932 432 | 1 932 432 |
| Finance lease obligations | 245 488 | 245 488 |
| | 4 680 884 | 4 680 884 |

## 32. Risk management

### Capital risk 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 and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the group consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 14, 22, 21, cash and cash equivalents disclosed in note 19, and equity as disclosed in the statement of financial position.

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 statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The group's strategy is to maintain a very low gearing given the stage of the Company's development as well as the cost of funding. As at year end the group had no gearing.

There are no externally imposed capital requirements, and there have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

### Financial risk management

#### Liquidity risk

The group's risk to liquidity is a result of the funds available to cover future commitments. The group manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### Interest rate risk

*Cash and cash equivalents*

Cash and cash equivalents comprise current accounts and call deposits. During the year under review, the call deposits attracted interest at rates averaging 6% per annum.

#### Accounts receivable and accounts payable

Due to the short-term nature of accounts receivable and payable, the Company is not exposed to any material interest rate risk.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The Company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

## 32. Risk management continued

### Credit risk (continued)

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

### Foreign exchange risk

Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure with the group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the group are encouraged to use forward contracts, transacted with group treasury. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

For segment reporting purposes, each subsidiary designates contracts with group treasury as fair value hedges or cash flow hedges, as appropriate, external foreign exchange contracts are designated at group level as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis.

The group reviews its foreign currency exposure, including commitments on an ongoing basis. The group expects its foreign exchange contracts to hedge foreign exchange exposure.

At 28 February 2011, if the currency had strengthened/weakened by 10 per cent against the US dollar with all other variables held constant, the post-tax effect on profit/(loss) for the year would have been a profit of R10 817 009 (2010: R2 125 483) if strengthened and a loss of R10 817 009 (2010: R97 074) if weakened, mainly as a result of foreign exchange gains or losses on translation of US dollar denominated borrowings.

### Price risk

The group is exposed to equity securities price risk because of investments held by the group and classified on the consolidated statement of financial position either as available-for-sale or at fair value through profit or loss. The group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group.

Post-tax profit for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through profit or loss. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified as available-for-sale.

## 33. Going concern

The consolidated annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## 34. Events after the reporting period

Refer to the directors' report for material events subsequent to 28 February 2011.

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Rand | **2011** | 2010 | **2011** | 2010 |
| **35. Commitments and contingent liabilities** | | | | |
| Lonsa (Proprietary) Limited ("Lonsa") | – | 11 875 000 | – | 11 875 000 |

Mr R Vela is a director of Lonsa, which, in terms of corporate finance advisory mandates dated 22 February 2008 and 17 May 2010, acts as corporate finance adviser to SacOil. Lonsa introduced, structured, negotiated and project managed the Initial SacOil Transaction and its subsequent Restructure and the Farmout Interest Acquisition on behalf of SacOil and has charged a fee for its services. Lonsa is entitled to a contingent success fee equivalent to 2,0 per cent of the proposed transaction value of assets acquired and 2,5 per cent of the gross value of the equity raised which is standard in all Lonsa mandates for proposed transactions and equity raised.

The group has no other material commitments or contingent liabilities.

# Shareholder information

## Shareholder information

**Register date:** 25 February 2011
**Issued Share Capital:** 674 090 410

| Shareholder spread | No of Shareholdings | % | No of Shares | % |
|---|---|---|---|---|
| 1 – 1 000 shares | 576 | 30,57 | 249 486 | 0,04 |
| 1 001 – 10 000 shares | 659 | 34,98 | 3 171 556 | 0,47 |
| 10 001 – 100 000 shares | 490 | 26,01 | 18 063 929 | 2,68 |
| 100 001 – 1 000 000 shares | 120 | 6,37 | 33 998 831 | 5,04 |
| 1 000 001 shares and over | 39 | 2,07 | 618 606 608 | 91,77 |
| **Totals** | **1 884** | **100,00** | **674 090 410** | **100,00** |

| Distribution of shareholders | No of Shareholdings | % | No of Shares | % |
|---|---|---|---|---|
| Banks | 9 | 0,48 | 10 063 856 | 1,49 |
| Close Corporations | 35 | 1,86 | 19 658 072 | 2,92 |
| Endowment Funds | 2 | 0,11 | 156 000 | 0,02 |
| Individuals | 1 697 | 90,07 | 81 855 633 | 12,14 |
| Insurance Company | 1 | 0,05 | 94 882 129 | 14,08 |
| Investment Companies | 23 | 1,22 | 41 735 805 | 6,19 |
| Mutual Funds | 4 | 0,21 | 18 465 215 | 2,74 |
| Nominees & Trusts | 57 | 3,03 | 14 120 372 | 2,09 |
| Other Corporations | 11 | 0,58 | 180 700 | 0,03 |
| Private Companies | 39 | 2,07 | 158 738 146 | 23,55 |
| Public Companies | 4 | 0,21 | 187 471 407 | 27,81 |
| Retirement Funds | 2 | 0,11 | 46 763 075 | 6,94 |
| **Totals** | **1 884** | **100,00** | **674 090 410** | **100,00** |

| Public/non-public shareholders | No of Shareholdings | % | No of Shares | % |
|---|---|---|---|---|
| **Non-Public Shareholders** | 6 | 0,32 | 482 247 176 | 71,54 |
| Directors and Associates of the Company | 3 | 0,16 | 10 849 591 | 1,61 |
| Strategic Holdings | 3 | 0,16 | 471 397 585 | 69,93 |
| **Public Shareholders** | 1 878 | 99,68 | 191 843 234 | 28,46 |
| **Totals** | **1 884** | **100,00** | **674 090 410** | **100,00** |

| Beneficial shareholders holding 5% or more | No of Shares | % |
|---|---|---|
| Encha Group Limited | 329 848 790 | 48,93 |
| Metropolitan Asset Managers | 94 882 129 | 14,08 |
| Public Investment Corporation | 46 666 666 | 6,92 |
| **Totals** | **471 397 585** | **69,93** |

| Directors | No of Shares | % |
|---|---|---|
| Robin Vela (Lonsa Capital (Proprietary) Limited) | 5 349 591 | 0,79 |
| Colin Bird | 5 300 000 | 0,79 |
| Carina de Beer | 200 000 | 0,03 |
| **Totals** | **10 849 591** | **1,61** |

| Strategic Holdings – direct beneficial | No of Shares | % |
|---|---|---|
| **Encha Group Limited** | **329 848 790** | **48,93** |
| Encha Group Limited | 181 590 894 | 26,94 |
| Encha Capital (Proprietary) Limited | 148 257 896 | 21,99 |
| **Metropolitan Asset Managers** | **94 882 129** | **14,08** |
| Metlife Main Account | 94 882 129 | 14,08 |
| **Government Employees Pension Fund** | **46 666 666** | **6,92** |
| Public Investment Corporation | 46 666 666 | 6,92 |
| **Totals** | **471 397 585** | **69,93** |

# Definitions and terms used in the Integrated Annual Report

| | |
|---|---|
| "Admission" | admission of all the SacOil Ordinary Shares to trading on AIM on or about 8 April 2011; |
| "AIM" | the AIM Market of the London Stock Exchange; |
| "Block III" | Block 3, Albertine Graben in the DRC; |
| "CSDP" | a Central Securities Depository Participant, appointed by individual SacOil Shareholders for the purpose of and in regard to Dematerialisation in terms of the Security Services Act, No. 36 of 2004, as amended; |
| "Dematerialise" or "Dematerialisation" | the process whereby physical share certificates are replaced with electronic records evidencing ownership of SacOil Ordinary Shares for the purposes of Strate, as contemplated in the Securities Services Act, No. 36 of 2004, as amended; |
| "DIG Oil" | Divine Inspiration Group (Proprietary) Limited (Registration number: 2007/003931/07), a private company incorporated in accordance with the laws of South Africa, which is controlled by Brown (Identification number: 720117 0039 082); |
| "DRC" | the Democratic Republic of the Congo; |
| "EER" | Energy Equity Resources Limited (Registration number: 5308516), a company duly incorporated in accordance with the laws of England and Wales; |
| "JSE" | JSE Limited (Registration number: 2005/022839/06), a company duly registered and incorporated with limited liability under the company laws of South Africa and licensed as an exchange under the Securities Services Act, No. 36 of 2004, as amended; |
| "LSE" | the London Stock Exchange; |
| "OPL 233" | oil prospecting licence No. 233 over concession block 233 in Nigeria; |
| "OPL 281" | oil prospecting licence No. 281 over concession block 281 in Nigeria; |
| "RSA" or "South Africa" | the Republic of South Africa; |
| "SacOil ordinary shares" | ordinary shares of no par value in the issued capital of SacOil; |
| "SacOil shareholders" | shareholders in the issued capital of SacOil; |
| "SacOil (Proprietary) Limited" | South Africa Congo Oil Company (Proprietary) Limited (Registration number: 2007/024617/07), a private company incorporated in accordance with the laws of South Africa and which company's shares are held 50 per cent by SacOil and 50 per cent by DIG; |
| "Semliki" | Semliki Energy SPRL (Registration number: KG8779/M), a company incorporated in the DRC and which company's shares are held 50 per cent by SacOil and 50 per cent by DIG; |
| "SENS" | the Securities Exchange News Service of the JSE; |
| "Total" | Total E&P RDC (Registration number: 712 081 382 RCS), a company incorporated in accordance with the laws of France. |

# Notice of annual general meeting

## SacOil Holdings Limited

(Incorporated in the Republic of South Africa)
(Registration number: 1993/000460/06)
("SacOil" or "the Company")
ISIN Code: ZAE 0000127460 JSE Share Code: SCL
AIM Share Code: SAC

Notice is hereby given that an annual general meeting ("meeting") of shareholders of the Company will be held on 17 November 2011 at 10:00 at 2nd Floor, The Gabba Dimension Data Campus, 57 Sloane Street, Bryanston to deal with such business as may lawfully be dealt with at the meeting and to consider and, if deemed fit, pass, with or without modification, the ordinary and special resolutions set out hereunder in the manner required by the Companies Act, 71 of 2008, as amended ("the Act"), as read with the Listings Requirements of the JSE.

The record date on which members must be recorded as such in the register maintained by the transfer secretaries of the Company for the purpose of being entitled to attend and vote at the meeting is 15 November 2011.

**Meeting participants (including shareholders and proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in a shareholders' meeting. Forms of identification include valid identity documents, driver's licences and passports.**

## 1. Ordinary Resolution number 1

### Annual financial statements for the year ended 28 February 2011

"Resolved that the annual financial statements of the Company for the year ended 28 February 2011 be and are hereby adopted."

The consolidated audited annual financial statements of the Company (as approved by the Board of Directors of the Company), incorporating the external auditor, Audit Committee and directors' reports for the year ended 28 February 2011, have been distributed as required and will be presented.

The complete annual financial statements are set out on pages 23 to 59 of this integrated annual report.

## 2. Ordinary resolution number 2

### 2.1 Re-election of directors

"Resolved that shareholders re-elect, by way of a series of votes, the following directors retiring, in terms of article 13.2 of the Company's articles of association, and who, being eligible, have offered themselves for re-election:
2.1.1 Bill Guest
2.1.2 John Bentley."

### 2.2 Re-election of directors who retire by rotation

"Resolved that shareholders re-elect by way of series of votes, the following director who retire by rotation in terms of article 15.1 of the Company's articles of association, and who, being eligible, has offered himself for re-election:"
2.2.1 Colin Bird.

Brief biographies in respect of each director offering himself for re-election are contained on pages 11 and 12 of this integrated annual report.

## 3. Ordinary resolution number 3

### Re-appointment of external auditor

"Resolved that shareholders authorise the Board to re-appointment BDO South Africa Incorporated, 13 Wellington Road, Parktown, Johannesburg, 2193 as the independent external auditors and Fred Bruce-Brand as the individual designated auditor of the Company for the ensuing year and to determine the remuneration of the auditors."

## 4. Ordinary resolution number 4

### Election of Audit and Risk Committee members

"Resolved that shareholders elect, each by way of a separate vote, the following independent, non-executive directors, as members of the SacOil Audit and Risk Committee, with effect from the end of this annual general meeting until the conclusion of the next annual general meeting of the Company:
4.1 Bill Guest
4.2 Richard Linnell
4.3 John Bentley."

Brief biographies of these directors offering themselves for election as members of the SacOil Audit and Risk Committee are enclosed in the report on pages 11 and 12 of this integrated annual report.

## 5. Ordinary resolution number 5

### Endorsement of SacOil remuneration policy

"Resolved that shareholders endorse, by way of a non-binding advisory vote, the Company's remuneration policy (excluding the remuneration of the non-executive directors and the members of Board committees for their services as directors and member of committee), as set out in this integrated annual report on page 45."

# Notice of annual general meeting continued

Ordinary resolution number 5 is of an advisory nature only and failure to pass this resolution will therefore not have any legal consequences relating to existing arrangements. However, the Board will take the outcome of the vote into consideration when considering the Company's remuneration policy in the remuneration of executive directors.

## 6. Ordinary resolution number 6

### General authority to directors to allot and issue authorised but unissued ordinary shares

"Resolved that the authorised but unissued shares in the capital of the Company be and are hereby placed under the control and authority of the directors of the Company and that the directors of the Company be and are hereby authorised and empowered to allot, issue and otherwise dispose of such shares to such person or persons on such terms and conditions and at such times as the directors of the Company may from time to time and in their discretion deem fit, subject to the provisions of the Act, the Articles of Association of the Company and the JSE Listings Requirements, when applicable, such authority to remain in force until the next annual general meeting."

## 7. Ordinary resolution number 7

### General authority to issue shares for cash

*In terms of the JSE Listings Requirements, the approval of 75% majority of the votes cast by shareholders present or represented by proxy at this annual general meeting will be required for this authority to become effective.*

"Resolved that subject to the general authority proposed in terms of ordinary resolution number 6 above and the JSE Listings Requirements, the directors be and are hereby granted a general authority to issue all or any of the authorised but unissued shares in the capital of the Company, for cash, as and when they in their discretion deem fit, subject to the Act, the Articles of Association of the Company, the Listings Requirements of the JSE, when applicable, and the following limitations, namely that:

- the equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- any such issue will only be made to "public shareholders" as defined in the JSE Listings Requirements and not related parties, unless the JSE otherwise agrees;
- the number of shares issued for cash shall not in the aggregate in any one financial year exceed 15 per cent of the Company's issued share capital of ordinary shares. The number of ordinary shares which may be issued shall be based on the number of ordinary shares in issue, added to those that may be issued in future (arising from the conversion of options/convertibles) at the date of such application, less any ordinary shares issued, or to be issued in future arising from options/convertible ordinary shares issued during the current financial year, plus any ordinary shares to be issued pursuant to a rights issue which has been announced, is irrevocable and fully underwritten, or an acquisition which has had final terms announced;
- this authority be valid until the Company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date that this authority is given;
- a paid press announcement giving full details, including the impact on the net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within 1 (one) financial year, 5% (five per cent) or more of the number of shares in issue prior to the issue; and
- in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount permitted will be 10% (ten per cent) of the weighted average traded price on the JSE of those shares over the 30 (thirty) business days prior to the date that the price of the issue is determined or agreed by the directors of the Company."

## 8. Ordinary resolution number 8

### Authority to sign all required documents

That, subject to the passing of the ordinary and special resolutions at the Meeting, any director of the Company or the Company Secretary shall be and is hereby authorised to sign all documents and perform all acts which may be required to give effect to such ordinary and special resolutions.

## 9. Special resolution number 1

### General authority to acquire/(repurchase) shares

"Resolved that the Company be and is hereby authorised by way of a specific approval as contemplated in section 48 of the Act, to acquire from time to time any or all of the issued ordinary shares of the Company, upon such terms and conditions and in such amounts as the directors of the Company may from time to time determine, but subject to the Articles of Association of the Company

and the provisions of the Act, when applicable and provided that:

That the Company and/or any subsidiary of the Company is hereby authorised, by way of a general authority, from time to time, to acquire ordinary shares in the share capital of the Company, provided that:

- any such acquisition of ordinary shares shall be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement with the counterparty;
- this general authority shall be valid until the earlier of the Company's next annual general meeting or the variation or revocation of such general authority by special resolution at any subsequent general meeting of the Company, provided that it shall not extend beyond 15 months from the date of passing of this special resolution number 1;
- an announcement will be published as soon as the Company or any of its subsidiaries have acquired ordinary shares constituting, on a cumulative basis, 3 per cent of the number of ordinary shares in issue and for each 3 per cent in aggregate of the initial number acquired thereafter, in compliance with paragraph 11.27 of the JSE Listings Requirements;
- acquisitions of shares in aggregate in any one financial year may not exceed 20 per cent of the Company's ordinary issued share capital, as the case may be, as at the date of passing of this special resolution number 1;
- ordinary shares may not be acquired at a price greater than 10 per cent above the weighted average of the market value at which such ordinary shares for the five business days immediately preceding the date transaction is effected. The JSE should be consulted for a ruling if the Company's securities have not traded in such five business day period;
- the Board of Directors authorises the acquisition, the Company passes the solvency and liquidity test and that from the time that the test is done, there are no material changes to the financial position of the Company;
- the Company has been given authority by its articles of association;
- at any point in time, the Company and/or its subsidiaries may only appoint one agent to effect any such acquisition;
- the company and/or its subsidiaries undertaking that they will not enter the market to so acquire the Company's shares until the Company's sponsor has provided written confirmation to the JSE regarding the adequacy of the Company's working capital in accordance with Schedule 25 of the JSE Listings Requirements;
- a resolution has been passed by the Board of Directors confirming that the Board has authorised the general repurchase, that the Company passed the solvency and liquidity test and that since the test was done, there have been no material changes to the financial position of the group; and
- the Company and/or its subsidiaries not acquiring any shares during a prohibited period, as defined in the JSE Listings Requirements unless a repurchase programme is in place, where dates and quantities of shares to be traded during the prohibited period are fixed and full details of the programme have been disclosed in an announcement over the Securities Exchange News Service ("SENS") prior to the commencement of the prohibited period.

The JSE Listings Requirements require, in terms of section 11.26, the following disclosures, which appear in this integrated annual report:

- Directors and management – refer to pages 11 and 12 of this integrated annual report;
- Major shareholders – refer to page 2 of this integrated annual report;
- Directors' interests in securities – refer to page 61 of this integrated annual report; and
- Share capital of the Company – refer to page 52 of this integrated annual report.

### Litigation statement

In terms of paragraph 11.26 of the JSE Listings Requirements, the directors, whose names appear on pages 11 and 12 of this integrated annual report of which the notice of annual general meeting forms part, are not aware of any legal or arbitration proceedings that are pending or threatened, that may have or had in the recent past, being at least the previous 12 months, a material effect on the Sacoil Group's financial position. Refer to the directors' report for detail of litigation.

### Directors' responsibility statement

The directors, whose names appear on pages 11 and 12 of this integrated annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this special resolution and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any

# Notice of annual general meeting continued

statements false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this special resolution contains all information required by law and the JSE Listings Requirements.

### Material changes

Other than the facts and developments reported on in this integrated annual report, there have been no material changes in the financial or trading position of the Company and its subsidiaries since the date of signature of the audit report and up to the date of the notice of annual general meeting.

The directors have no specific intention, at present, for the Company or its subsidiaries to acquire any of the Company's shares but consider that such a general authority should be put in place should an opportunity present itself to do so during the year, which is in the best interests of the Company and its shareholders.

The directors are of the opinion that it would be in the best interests of the Company to extend such general authority and thereby allow the Company or any of its subsidiaries to be in a position to acquire the shares issued by the Company through the order book of the JSE, should the market conditions, tax dispensation and price justify such an action.

### Reason for and effect of special resolution number 1

The reason for and effect of special resolution number 1 is to grant the Company general approval to acquire its own issued shares on such terms, conditions and such amounts determined from time to time by the directors of the Company by the limitations set out above.

Pursuant to and in terms of the JSE Listings Requirements, the directors of the Company hereby state:

- the directors of the Company have no specific intention to effect the provisions of special resolution number 1 but will, however, continually review this position having regard to prevailing circumstances;
- the intention of the Company and/or its subsidiaries is to utilise the general authority to repurchase; if at some future date the cash resources of the Company are in excess of its requirements; and
- the method by which the Company and any of its subsidiaries intend to repurchase its securities and the date on which such repurchase will take place, has not yet been determined.

## 10. Special resolution number 2: Remuneration of non-executive directors

Resolved that the Board and committee fees for non-executive directors for the financial year ending 29 February 2012, as set out in the note below, be and are hereby authorised, in accordance with section 66 (8) – (9) of the Companies Act 71 of 2008 and that the Company may continue to pay directors' fees at the annual rates specified in the note below, for the period from 1 March 2011 until the date of the Company's next Annual General Meeting.

| Name of director | Annual Fee |
|---|---|
| Bill Guest (independent non-executive) | £30 000 |
| John Bentley (independent non-executive) | £30 000 |
| Gontse Moseneke (non-executive) | R150 000 |
| Richard Linnell (independent non-executive) | R350 000 |

### Reason for and effect of special resolution number 2

The Companies Act 71 of 2008 requires shareholder approval of directors' fees prior to payment of such fees.

## 11. Special resolution number 3

### Financial assistance in terms of section 44 and 45 of the Companies Act 71 of 2008

"Resolved that the Board of Directors of the Company be and is hereby authorised subject to section 44 and 45 of the Companies Act 71 of 2008, the Company's articles of association and the JSE Listings Requirements, to provide direct or indirect financial assistance to a director or prescribed officer of the Company or of a related or interrelated Company, to a related or interrelated Company or corporation, or to a member of a related or interrelated corporation, or to a person related to any such Company, corporation, director, prescribed officer or member, provided that no such financial assistance may be provided at any time in terms of this authority after the expiry of two years from the date of the adoption of this special resolution number 3."

### Reason for and effect of special resolution

The reason for, and effect of, the special resolution referred to above, is to permit the Company to provide direct or indirect financial assistance to the individuals and entities referred to above.

## Voting instructions

In terms of the Act, any member entitled to attend and vote at the above meeting may appoint one or more persons as proxy, to attend and speak and vote in his stead. A proxy need not be a member of the Company. Forms of proxy must be deposited at the office of the transfer secretaries not later than 48 hours before the time fixed for the meeting (excluding Saturdays, Sundays and public holidays).

If your SacOil shares have been dematerialised and are held in a nominee account, then your Central Securities Depository Participant ("CSDP") or broker, as the case may be, should contact you to ascertain how you wish to cast your vote at the annual general meeting and thereafter cast your vote in accordance with your instructions.

If you have not been contacted it would be advisable for you to contact your CSDP or broker, as the case may be, and furnish them with your instructions. If your CSDP or broker, as the case may be, does not obtain instructions from you, they will be obliged to act in terms of your mandate furnished to them, or if the mandate is silent in this regard to abstain from voting.

Dematerialised shareholders whose shares are held in a nominee account must not complete the attached form of proxy. Unless you advise your CSDP or broker timeously in terms of the agreement between yourself and your CSDP or broker by the cut-off time advised by them that you wish to attend the annual general meeting or send a proxy to represent you at the annual general meeting, your CSDP or broker will assume you do not wish to attend the annual general meeting or send a proxy. If you wish to attend the annual general meeting, your CSDP or broker will issue the necessary letter of representation to you to attend the annual general meeting.

Shareholders who have dematerialised their shares through a CSDP or broker, other than "own name" registered dematerialised shareholders, who wish to attend the annual general meeting, must request their CSDP or broker to issue them with a letter of representation, or they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement/mandate entered into between them and the CSDP or broker.

## Shareholder rights

In terms of the Act, any member entitled to attend In terms of section 58 of the Companies Act. No. 71 of 2008 (as amended), shareholders have rights to be represented by proxy as herewith stated.

At any time, a shareholder of the Company may appoint any individual, including an individual who is not a shareholder of the Company, as a proxy to:

a. participate in, and speak and vote at, a shareholders meeting on behalf of the shareholder; or
b. give or withhold written consent on behalf of the shareholder to a decision contemplated in section 60; provided that the shareholder may appoint more than one proxy to exercise voting rights attached to different shares held by the shareholder.

2. A proxy appointment:
a. must be in writing, dated and signed by the shareholder; and
b. remains valid for:
   i. one year after the date on which it was signed; or
   ii. any longer or shorter period expressly set out in the appointment, unless it is revoked in a manner contemplated in subsection (4)(c), or expires earlier as contemplated in subsection (8)(d).218.164

3. Except to the extent that the Articles of Association of the Company provides otherwise:
a. a shareholder of the Company may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder;
b. a proxy may delegate the proxy's authority to act on behalf of the shareholder to another person, subject to any restriction set out in the instrument appointing the proxy; and
c. a copy of the instrument appointing a proxy must be delivered to the Company, or to any other person on behalf of the Company, before the proxy exercises any rights of the shareholder at a shareholders' meeting.

4. Irrespective of the form of instrument used to appoint a proxy:
a. the appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder;
b. the appointment is revocable unless the proxy appointment expressly states otherwise; and
c. if the appointment is revocable, a shareholder may revoke the proxy appointment by:
   i. cancelling it in writing, or making a later inconsistent appointment of a proxy; and
   ii. delivering a copy of the revocation instrument to the proxy, and to the Company.

5. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of:

# Notice of annual general meeting continued

a. the date stated in the revocation instrument, if any; or
b. the date on which the revocation instrument was delivered as required in subsection (4)(c)(ii).

6. If the instrument appointing a proxy or proxies has been delivered to the Company, as long as that appointment remains in effect, any notice that is required by this Act or the Company's Articles of Association to be delivered by the Company to the shareholder must be delivered by the Company to

a. the shareholder; or
b. the proxy or proxies, if the shareholder has
   i. directed the Company to do so, in writing; and
   ii. paid any reasonable fee charged by the Company for doing so.

7. A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction, except to the extent that the Articles of Association, or the instrument appointing the proxy, provides otherwise.

8. If the Company issues an invitation to shareholders to appoint one or more persons named by the Company as a proxy, or supplies a form of instrument for appointing a proxy:
a. the invitation must be sent to every shareholder which is entitled to notice of the meeting at which the proxy is intended to be exercised;
b. the invitation, or form of instrument supplied by the Company for the purpose of appointing a proxy, must:
   i. bear a reasonably prominent summary of the rights established by this section;
   ii. contain adequate blank space, immediately preceding the name or names of any person or persons named in it, to enable a shareholder to write in the name and, if so desired, an alternative name of a proxy chosen by the shareholder; and
   iii. provide adequate space for the shareholder to indicate whether the appointed proxy is to vote in favour of or against any resolution or resolutions to be put at the meeting, or is to abstain from voting;

c. the Company must not require that the proxy appointment be made irrevocable; and
d. the proxy appointment remains valid only until the end of the meeting at which it was intended to be used, subject to subsection (5).

9. Subsection (8)(b) and (d) do not apply if the Company merely supplies a generally available standard form of proxy appointment on request by a shareholder.

It is request ed that forms of proxy should be forwarded to reach the Company's transfer secretaries at the address given below by no later than 17:00 on 15 November 2011.

Shareholders or their proxies may participate in the meeting by way of telephone conference call and, if they wish to do so:

- must contact the Company Secretary (by email at the address melinda@fusioncorp.co.za) by no later than 17:00 on 11 November 2011 in order to obtain a pin number and dial-in details for that conference call;
- will be required to provide reasonably satisfactory identification; and
- will be billed separately by their own telephone service providers for their telephone call to participate in the meeting.

**Melinda Gous**

By order of the Board

# Form of proxy

## SacOil Holdings Limited

(Incorporated in the Republic of South Africa)
(Registration number: 1993/000460/06)
("SacOil" or "the Company")
ISIN Code: ZAE 0000127460 JSE Share Code: SCL
AIM Share Code: SAC


**FORM OF PROXY FOR THE ANNUAL GENERAL MEETING TO BE HELD IN THE SACOIL HOLDINGS BOARDROOM, 10:00 on 17 NOVEMBER 2011 – FOR USE BY CERTIFICATED ORDINARY SHAREHOLDERS AND DEMATERIALISED ORDINARY SHAREHOLDERS WITH "OWN NAME" REGISTRATION ONLY**

Holders of dematerialised ordinary shares other than "own name" registration must inform their CSDP or broker of their intention to attend the annual general meeting and request their CSDP to issue them with the necessary authorisation to attend the annual general meeting in person or provide their CSDP or broker with their voting instructions should they not wish to attend the annual general meeting in person but wish to be represented thereat.

I/We _____
(Please print)

Of (address) _____

Being the registered holder(s) of [ ] ordinary shares in the capital of the Company do hereby appoint

1. _____ or failing him/her,

2. _____ or failing him/her,

the chairman of the annual general meeting as my/our proxy to act on my/our behalf at the annual general meeting of the Company which will be held on 17 November 2011 for the purpose of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at any adjournment thereof, and to vote for and/or against the resolutions and/or abstain from voting in respect of the shares registered in my/our name/s, in accordance with the following instructions:

| | | Number of ordinary shares | | |
|---|---|---|---|---|
| | | For | Against | Abstain |
| 1. | Ordinary resolution number 1: Adopting the financial statements | | | |
| 2. | Ordinary resolution number 2: | | | |
| 2.1 | Re-election of directors in terms of section 13.2 of the articles of association | | | |
| | 2.1.1 Bill Guest | | | |
| | 2.1.2 John Bentley | | | |
| 2.2 | Re-election of director who retires by rotation: | | | |
| | 2.2.1 Colin Bird | | | |
| 3. | Ordinary resolution number 3: Reappointment of external auditor | | | |
| 4. | Ordinary resolution number 4: Election of Audit and Risk Committee | | | |
| | 4.1 Bill Guest | | | |
| | 4.2 Richard Linnell | | | |
| | 4.3 John Bentley | | | |
| 5. | Ordinary resolution number 5: Endorsement of SacOil remuneration policy | | | |
| 6. | Ordinary resolution number 6: General authority to directors to allot and issue authorised but unissued ordinary shares | | | |
| 7. | Ordinary resolution number 7: General authority to issue shares for cash | | | |
| 8. | Ordinary resolution number 8: Authority to sign documents | | | |
| 9. | Special resolution number 1: General authority to acquire (repurchase) shares | | | |
| 10. | Special resolution number 2: Remuneration of non-executive directors | | | |
| 11. | Special resolution number 3: Financial assistance to directors, prescribed officers, employee share scheme beneficiaries and related and interrelated companies and corporations | | | |

**Please indicate with an "X" in the appropriate spaces provided above how you wish your vote to be cast. If no indication is given, the proxy will be entitled to vote or abstain as he/she deems fit.**

Signed at _____ on _____ 2011

Signature _____

Assisted by me (where applicable) _____

AFRICAN INDEPENDENT UPSTREAM OIL & GAS COMPANY

# Notes to form of proxy

1. An ordinary shareholder holding dematerialised shares by "own name" registration, or who holds shares that are not dematerialised, may insert the name of a proxy or the names of two alternative proxies of the ordinary shareholder's choice in the space provided, with or without deleting "the chairman of the annual general meeting". The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow. Should a proxy not be specified, this will be exercised by the chairman of the annual general meeting. A proxy need not be a shareholder of the Company.

2. An ordinary shareholder is entitled to one vote on a show of hands and, on a poll, to that proportion of the total votes in the Company which the aggregate amount of the nominal value of the shares held by him/her bears to the aggregate amount of the nominal value of all the shares issued by the Company. An ordinary shareholder's instructions to the proxy must be indicated by inserting the relevant number of votes exercisable by the ordinary shareholder in the appropriate box(es). An "X" in the appropriate box indicates the maximum number of votes exercisable by that shareholder. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of the entire shareholder's votes exercisable thereat. An ordinary shareholder or his/her proxy is not obliged to use all the votes exercisable by the ordinary shareholder, or to cast all those votes exercised in the same way, but the total of the votes cast and in respect whereof abstention is recorder may not exceed the total of the votes exercisable by the ordinary shareholder.

3. If any ordinary shareholder does not indicate on this instrument that his/her proxy is to vote in favour of or against any resolution or to abstain from voting, or give contradictory instructions, or should any further resolution(s) or any amendment(s) which may be properly put before the annual general meeting be proposed, the proxy shall be entitled to vote as he/she thinks fit.

4. The completion and lodging of this proxy form will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat instead of any proxy appointed in terms thereof.

5. Documentary evidence establishing the authority of a person signing the proxy form in a representative capacity must be attached to this form, unless previously recorded by the Company or waived by the chairman of the annual general meeting.

6. The chairman of the annual general meeting may reject or accept any proxy form which is completed and/or received other than in compliance with these notes.

7. A proxy may not delegate his/her authority to act on behalf of the shareholder, to another person.

8. It is requested that this proxy form should be completed and returned to the Company's transfer secretaries, Link Market Services South Africa (Proprietary) Limited, 13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein, 2001 (PO Box 4844, Johannesburg 2000), so as to reach them by no later than 15 November 2011.

**ADDITIONAL FORMS OF PROXY ARE AVAILABLE FROM THE TRANSFER SECRETARIES ON REQUEST.**

# Election form

## SacOil Holdings Limited

(Incorporated in the Republic of South Africa)
(Registration number:1993/000460/06)
("SacOil" or "the Company")
ISIN Code: ZAE 0000127460 JSE Share Code: SCL
AIM Share Code: SAC


To:

The Directors
SacOil Holdings Limited

I/We _____ the undersigned
(Please print)

of (address) _____

being the registered holder(s) of [ ] ordinary shares in the capital of the Company and/or

do hereby elect to receive any documents or notices from SacOil, by electronic post, to the extent that the Company is permitted to so distribute any notices, documents, records or statements in terms of the Companies Act 71 of 2008, as amended, and any and every other statute, ordinance, regulation or rule in force from time to time, including the JSE Listings Requirements, concerning companies and affecting SacOil.

I/We hereby furnish the following email address and/or fax number for such electronic communication:

| | |
|---|---|
| Email address | |
| Fax number | |

Any written amendment or withdrawal of any such notice of consent by me/us, shall only take effect if signed by me/us and received by the Company.

Signed at _____ on _____ 2011

Signature _____

Assisted by me (where applicable) _____

1. Please complete, detach and return this election form to SacOil' transfer secretaries Link Market Services South Africa (Proprietary) Limited, 13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein, 2001 (PO Box 4844, Johannesburg 2000) by no later than 17:00 on 15 November 2011.

# Corporate information

## Country of incorporation:

The Republic of South Africa

## Legal form:

Public interested entity

## Registration number:

1993/000460/06

## Share codes:

JSE code: SCL Primary listing
AIM code: SAC Secondary listing
IZIN code: ZAE 0000 127460

## Registered office, domicile and physical address:

2nd Floor, The Gabba
Dimension Data Campus
57 Sloane Street
Bryanston
2021

## Postal address:

PostNet Suite 211
Private Bag X75
Bryanston
2021

## Contact details:

Tel: +27 (0) 11 575 7232
Fax: +27 (0) 11 576 2258

Email: info@sacoilholdings.com
Website: www.sacoilholdings.com

## Advisers:

| | |
|---|---|
| Company Secretary | Fusion Corporate Secretarial Services (Proprietary) Limited |
| Transfer Secretaries SA | Link Market Services South Africa (Proprietary) Limited |
| Transfer Secretaries UK | Computershare Investor Services (Jersey) Limited |
| Corporate Legal Advisers | Norton Rose South Africa/Bowman Gilfillan |
| Auditors | BDO South Africa Inc. |
| JSE Sponsor | The Standard Bank of South Africa Limited |
| Nominated Adviser | finnCap Limited |

AFRICAN INDEPENDENT UPSTREAM OIL & GAS COMPANY

www.sacoilholdings.com