



BUFFALO COAL CORP.

(Formerly known as Forbes & Manhattan Coal Corp.)

CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(Unaudited)

For the three and seven months ended September 30, 2014
and

the three and six months ended August 31, 2013

(Presented in South African Rands)

BUFFALO COAL CORP.Condensed Interim Consolidated Statements of Financial Position
(Presented in South African Rands) (Unaudited)

	September 30, 2014	February 28, 2014	March 1, 2013	September 30, 2014
Notes	R	(Note 3) R	(Note 3) R	(Note 1) C\$
Assets				
Non-current assets				
Property, plant and equipment	596 537 354	575 220 923	616 027 553	59 089 431
Intangible assets	10 785 136	11 506 000	32 803 013	1 068 311
Goodwill	-	-	134 508 493	-
Investment in financial assets	27 659 100	23 586 748	23 343 914	2 739 745
Other receivables	16 622 303	3 907 685	3 346 954	1 646 506
Long-term restricted cash	-	-	12 542 241	-
Total non-current assets	651 603 893	614 221 356	822 572 168	64 543 993
Current assets				
Trade and other receivables	93 687 356	77 597 078	54 075 952	9 280 111
Inventories	40 559 487	73 376 235	89 618 092	4 017 581
Current portion of investment in financial assets	-	-	16 592 600	-
Interest bearing receivables	-	29 140 388	46 947 676	-
Non-interest bearing receivables	1 562 479	1 504 434	1 034 384	154 770
Taxation receivable	-	9 115 182	18 801 738	-
Restricted cash	12 134 799	17 390 531	441 305	1 202 001
Cash and cash equivalents	5 311 382	14 582 999	26 704 813	526 114
Total current assets	153 255 503	222 706 847	254 216 560	15 180 577
Total assets	804 859 396	836 928 203	1 076 788 728	79 724 570
Equity and liabilities				
Capital and reserves				
Share capital	966 050 996	948 816 452	859 151 468	95 691 248
Currency translation reserve	(219 945 085)	(268 857 222)	(189 150 061)	(21 786 448)
Reserves	20 074 516	29 872 065	63 284 986	1 988 462
Accumulated retained loss	(532 451 299)	(385 446 596)	(146 066 853)	(52 741 449)
Equity attributable to owners of the company	233 729 128	324 384 699	587 219 540	23 151 813
Non-controlling interest	4 339 142	4 339 142	4 339 142	429 810
Total equity	238 068 270	328 723 841	591 558 682	23 581 623
Non-current liabilities				
Borrowings	6 105 997 042	91 228 073	128 582 544	10 499 435
Warrant liability	6 25 828 609	-	-	2 558 428
RCF loan facilities	5 103 544 957	50 887 479	-	10 256 546
Conversion option liability	5 115 651 707	7 828 422	-	11 455 768
Asset retirement obligation	4 21 373 615	31 929 112	29 906 948	2 117 143
Deferred tax liability	18 826 899	47 204 251	83 179 991	1 864 880
Total non-current liabilities	391 222 829	229 077 337	241 669 483	38 752 200
Current liabilities				
Trade and other payables	171 903 450	170 161 406	146 430 701	17 027 730
Current portion of borrowings	6 1 000 638	65 578 297	94 217 841	99 117
Current portion of RCF loan facilities	5 -	40 723 113	-	-
Loans payable	-	-	217 263	-
Current portion of asset retirement obligation	4 2 664 209	2 664 209	2 694 758	263 900
Total liabilities	175 568 297	279 127 025	243 560 563	17 390 747
Total liabilities	566 791 126	508 204 362	485 230 046	56 142 947
Total equity and liabilities	804 859 396	836 928 203	1 076 788 728	79 724 570

Approved on behalf of the Board:

Signed "Craig Wiquill", DirectorSigned "Robert Francis", Director

The accompanying notes are an integral part of the condensed interim consolidated financial statements

BUFFALO COAL CORP.Condensed Interim Consolidated Statements of Profit or Loss and Other Comprehensive Income
(Presented in South African Rands) (Unaudited)

	7 months ended September 30, 2014 R	6 months ended August 31, 2013 (Note 3) R	7 months ended September 30, 2014 (Note 1) C\$	3 months ended September 30, 2014 R	3 months ended August 31, 2013 (Note 3) R	3 months ended September 30, 2014 (Note 1) C\$
Revenue	408 647 023	364 793 372	40 478 136	188 477 230	179 703 543	18 669 430
Cost of sales	(454 273 114)	(368 312 563)	(44 997 585)	(211 370 553)	(186 151 766)	(20 937 106)
Gross (loss)/profit	(45 626 091)	(3 519 191)	(4 519 449)	(22 893 323)	(6 448 223)	(2 267 676)
Other income/(expense) - net	(15 415 317)	4 821 812	(1 526 949)	(21 814 951)	535 109	(2 160 859)
General and administration expenses	(43 323 608)	(37 745 034)	(4 291 378)	(19 367 635)	(19 927 282)	(1 918 442)
Loss before the undernoted	(104 365 016)	(36 442 413)	(10 337 777)	(64 075 909)	(25 840 396)	(6 346 977)
Finance income	708 888	1 572 720	70 218	280 497	938 731	27 784
Finance expense	(23 288 935)	(11 372 260)	(2 306 863)	(12 503 019)	(6 232 604)	(1 238 474)
Loss before income tax	(126 945 063)	(46 241 953)	(12 574 422)	(76 298 431)	(31 134 269)	(7 557 667)
Income tax benefit	18 752 214	(8 130 045)	1 857 482	6 218 681	(23 055 416)	615 985
Loss for the period	(108 192 849)	(54 371 998)	(10 716 939)	(70 079 750)	(54 189 685)	(6 941 682)
Other comprehensive (loss)/income	-	(69 539 787)	-	-	34 672 877	-
Total comprehensive (loss)/income for the period	(108 192 849)	(123 911 785)	(10 716 939)	(70 079 750)	(19 516 808)	(6 941 682)
(Loss) Profit attributable to:						
- Owners of the parent	(108 192 849)	(123 911 785)	(10 716 939)	(70 079 750)	(19 516 808)	(6 941 682)
- Non-controlling interest	-	-	-	-	-	-
	(108 192 849)	(123 911 785)	(10 716 939)	(70 079 750)	(19 516 808)	(6 941 682)
Net loss per share - basic and diluted	(2.47)	(1.56)	(0.24)	(1.41)	(1.55)	(0.14)
Headline loss per share - basic and diluted	(2.47)	(1.56)	(0.24)	(1.41)	(1.55)	(0.14)
Weighted average number of common shares outstanding:						
- Basic	43 761 688	34 865 717	43 761 688	49 647 238	34 865 717	49 647 238
- Diluted	43 761 688	34 865 717	43 761 688	49 647 238	34 865 717	49 647 238

The accompanying notes are an integral part of the condensed interim consolidated financial statements

BUFFALO COAL CORP.

 Condensed Interim Consolidated Statements of Changes in Equity
 (Presented in South African Rands) (Unaudited)

	Attributable to owners of the Group								Non-controlling interest	Total equity
	Note	No. of shares issued	Share capital	Reserves		Accumulated retained loss	Currency translation reserve	Total		
				Option reserve	BEE option reserve					
		R	R	R	R	R	R	R	R	
Balance at March 1, 2013	3	34 386 035	859 151 468	54 211 275	9 073 711	(146 066 853)	(189 150 061)	587 219 540	4 339 142	591 558 682
Stock-based compensation		-	-	3 316 760	-	-	-	3 316 760	-	3 316 760
Stock options expired		-	-	(37 604 040)	-	37 604 040	-	-	-	-
Other comprehensive gain/(loss) for the period		-	86 838 936	2 013 822	-	-	(69 539 787)	19 312 971	-	19 312 971
Net loss for the period		-	-	-	-	(54 371 998)	-	(54 371 998)	-	(54 371 998)
Balance at August 31, 2013	3	34 386 035	945 990 404	21 937 817	9 073 711	(162 834 811)	(258 689 848)	555 477 273	4 339 142	559 816 415
Shares issued in relation to RCF Convertible Loan		3 041 047	5 607 185	-	-	-	-	5 607 185	-	5 607 185
Stock options expired		-	-	(1 078 720)	-	1 078 720	-	-	-	-
Other comprehensive gain/(loss) for the period		-	(2 781 137)	(60 743)	-	-	(10 167 374)	(13 009 254)	-	(13 009 254)
Net loss for the period		-	-	-	-	(223 690 505)	-	(223 690 505)	-	(223 690 505)
Balance at February 28, 2014	3	37 427 082	948 816 452	20 798 354	9 073 711	(385 446 596)	(268 857 222)	324 384 699	4 339 142	328 723 841
Other comprehensive gain/(loss) due to change in functional currency		-	-	-	-	(48 912 137)	48 912 137	-	-	-
Balance at 1 March 2014		37 427 082	948 816 452	20 798 354	9 073 711	(434 358 733)	(219 945 085)	324 384 699	4 339 142	328 723 841
Shares issued in relation to RCF Convertible Loan		14 639 268	17 234 544	-	-	-	-	17 234 544	-	17 234 544
Stock-based compensation		-	-	302 734	-	-	-	302 734	-	302 734
Stock options expired		-	-	(10 100 283)	-	10 100 283	-	-	-	-
Net loss for the period		-	-	-	-	(108 192 849)	-	(108 192 849)	-	(108 192 849)
Balance at September 30, 2014		52 066 350	966 050 996	11 000 805	9 073 711	(532 451 299)	(219 945 085)	233 729 128	4 339 142	238 068 270

The accompanying notes are an integral part of the condensed interim consolidated financial statements

BUFFALO COAL CORP.Condensed Interim Consolidated Statements of Cash Flow
(Presented in South African Rands) (Unaudited)

	7 months ended September 30, 2014 R	6 months ended August 31, 2013 (Note 3) R	7 months ended September 30, 2014 (Note 1) C\$
Cash flows from operating activities			
Cash (utilized in)/generated from operations	(24 468 907)	61 825 894	(2 423 744)
Interest received	708 888	514 208	70 218
Interest paid	(6 293 795)	(9 951 183)	(623 426)
Taxation recovery/(paid)	92 526	(928 463)	9 165
Net cash (utilized in)/generated from operating activities	(29 961 288)	51 460 456	(2 967 787)
Cash flows from investing activities			
Purchase of financial assets	(2 675 100)	(4 614 452)	(264 979)
Purchase of property, plant and equipment	(87 972 481)	(30 043 478)	(8 714 029)
Proceeds from the disposal of property, plant and equipment	150 000	290 000	14 858
Settlement of cancelled Riversdale Acquisition	29 140 388	-	2 886 473
Movement in non-interest bearing receivables	(58 045)	(249 179)	(5 750)
Movement in restricted cash	5 255 732	-	520 601
Net cash utilized in investing activities	(56 159 506)	(34 617 109)	(5 562 826)
Cash flows from financing activities			
Proceeds from RCF Convertible Loan	109 528 556	-	10 849 245
Issuance costs related to the RCF Convertible Loan	(3 095 407)	-	(306 613)
Net repayment of borrowings	(26 850 367)	(23 194 456)	(2 659 637)
Issuance costs related to restructuring of borrowings	(2 733 605)	-	(270 775)
Net cash generated from/(utilized in) financing activities	76 849 177	(23 194 456)	7 612 220
Net decrease in cash and cash equivalents	(9 271 617)	(6 351 109)	(918 393)
Cash at beginning of the period	14 582 999	26 401 944	1 444 505
Exchange loss on cash and cash equivalents	-	(1 819 570)	-
Cash at the end of the period	5 311 382	18 231 265	526 112

The accompanying notes are an integral part of the condensed interim consolidated financial statements

BUFFALO COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements
For the periods ended September 30, 2014 and August 31, 2013
(Presented in South African Rands) (Unaudited)

1 BASIS OF PREPARATION

The unaudited condensed interim consolidated financial statements (the "Interim Results") of Buffalo Coal Corp. (formerly known as Forbes and Manhattan Coal Corp.) ("BC Corp" or the "Company") and its subsidiaries (the "Group") for the period ended September 30, 2014 have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and have been prepared in accordance with accounting policies based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and are in compliance with IAS 34, *Interim Financial Reporting*.

The Interim Results have not been audited by the Group's external auditors. The Interim Results do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended February 28, 2014, which have been prepared in accordance with IFRS. The Group has adopted the required new or revised accounting standards in the current period, as further set out in note 2 below, none of which had a material impact on the Group's results.

The preparation of the Interim Results requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. In preparing these Interim Results, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those applied to the consolidated annual financial statements for the year ended February 28, 2014, with the exception of changes in estimates that are required in determining the asset retirement obligation and changes related to the functional and presentation currencies of the Company, as described in note 4 and 3, respectively.

The Interim Results of the Group for the three and seven months ended September 30, 2014 have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Group will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company closed the final tranche of funding of US\$15,0 million with RCF on July 3, 2014, the majority of which is being used to finance new capital items. The Company continues incurring operating losses and is dependent upon reaching profitable levels of operation in the future to support working capital needs. The Company suffered from two significant incidents during September 2014 which halted production at the Magdalena bituminous mine and Aviemore anthracite mine, for a period of time. The Company believes that, barring any further unforeseen incidents, the current steps the Company is and has taken (including the acquisition of new equipment, the restructuring of loss making contracts, the extension of the Magdalena opencast life of mine and continued discussions with Ikwezi regarding Alleen No.2) will enable it to operate profitably in the foreseeable future. The current uncertainties create significant doubt as to whether the various steps being taken will be completed as expected and whether or when the Company can attain profitability and positive cash flow from operations.

If the going concern assumption was not appropriate for the Interim Results of the Group then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used. Such adjustments could be material.

Effective March 1, 2014, the Company and its subsidiaries changed their financial year-ends from February 28 to December 31. The next financial year-end will therefore be the ten months ending December 31, 2014.

References to CYQ2 2014 and CYQ1 2014 mean the three and four months ended September 30, 2014 and June 30, 2014, respectively, references to PYQ2 2014 and PYQ1 2014 mean the three months ended August 31, 2014 and May 31, 2013, respectively and references to PY2014 mean the financial year ended February 28, 2014

BUFFALO COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements
For the periods ended September 30, 2014 and August 31, 2013
(Presented in South African Rands) (Unaudited)

1 BASIS OF PREPARATION (continued)

References to "R", "Rands" mean South African Rands, "C\$" mean Canadian Dollars and to "US\$" mean United States Dollars.

Convenience rate translation

The Company's functional and presentation currency is Rands. The Canadian Dollar amounts provided in the financial statements represent supplementary information solely for the convenience of the reader. The financial position as of September 30, 2014 and the financial results for the three and seven months ended September 30, 2014 were translated into Canadian Dollars using a convenience translation at the rate of C\$1:R10.0955, which is the exchange rate published on Oanda.com as of September 30, 2014. Such presentation is not in accordance with IFRS and should not be construed as a representation that the Rand amounts shown could be readily converted, realized or settled in Canadian Dollars at this or at any other rate.

2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

The following standards, amendments and interpretations are issued and effective for the first time for the period ended September 30, 2014

Amendments to IAS 32 – 'Financial Instruments: Presentation'

The IASB has issued amendments to the application guidance in IAS 32 that clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. However, the clarified offsetting requirements for amounts presented in the statement of financial position continue to be different from US GAAP. This amendment has not had a significant impact on the Group.

IASB issues narrow-scope amendments to IAS 36 – 'Impairment of assets'

These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal. This amendment has not had a significant impact on the Group.

Amendments to IAS 39 – 'Financial instruments': Recognition and Measurement

The IASB has issued amendments to IAS 39 in June 2013 to clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. This amendment has not had a significant impact on the Group.

Amendments to IFRS 10, 'Consolidated financial statements', IFRS 12, 'Disclosures of interest in other entities' and IAS 27, 'Separate financial statements' for investment entities

The amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made in IFRS 12 to introduce disclosures that an investment entity needs to make. This amendment has had no impact on the Group.

BUFFALO COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements
For the periods ended September 30, 2014 and August 31, 2013
(Presented in South African Rands) (Unaudited)

3 CHANGE IN FUNCTIONAL AND PRESENTATION CURRENCY

Functional currency

Due to the closure of the Toronto, Canada office during PY2014 and the transfer of all functions to the Johannesburg, South Africa office, management has concluded that the most appropriate functional currency of the parent company, BC Corp, is Rands. Previously, the functional currency of BC Corp was Canadian Dollars. The functional currency of the subsidiaries continues to be Rands. This change has been accounted for prospectively from March 1, 2014.

All assets, liabilities and equity were translated into Rands at the exchange rate on March 1, 2014. As a result, the cumulative currency translation differences which had arisen up to the date of change of functional currency were reallocated to other components within equity.

Presentation currency

Subsequent to the Group restructuring, BC Corp is effectively managed in South Africa, the majority of the transactions are conducted in Rands by its major subsidiary, and monthly reporting to management and the Board of Directors is reflected in Rands. Effective March 1, 2014, the presentation currency of the Group was changed from Canadian Dollars to Rands.

The change in presentation currency represents a voluntary change in accounting policy, which has been applied retrospectively.

Comparative information, for PY2014 and 2013 were translated from Canadian Dollars to Rands using the procedures outlined below:

- assets and liabilities were translated into Rands at each period-end closing rate of exchange;
- income and expenses were translated into Rands at average rates of exchange for each period as the average rate was considered a suitable proxy for the prevailing rates at the date of the transactions;
- differences resulting from the retranslation on the opening net assets and the results for each period have been taken to other comprehensive income ("OCI");
- share capital, share premium and other reserves were translated at the closing rate of exchange prevailing at each period-end closing rate; and
- accumulated retained losses were translated at the average rates of exchange for each period.

The exchange rates used were:

	2014	2013
	C\$:R	C\$:R
Average rate	9.5415	8.3631
Closing rate	9.6899	8.8261

4 ASSET RETIREMENT OBLIGATION

During the current period, the Group adjusted the risk-free rate used in discounting the estimated cost of restoring the environmental disturbances. Due to a change in the underlying inputs, there was a R10,6 million reduction in the provision from the year ended February 28, 2014.

BUFFALO COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements
For the periods ended September 30, 2014 and August 31, 2013
(Presented in South African Rands) (Unaudited)

5 RESOURCE CAPITAL FUND V L.P (“RCF”) LOAN FACILITIES

On July 3, 2014, after receiving shareholder approval at the special and annual general meeting held on June 27, 2014, BC Corp closed the final tranche of the US\$25,0 million convertible loan facility with RCF. The third and final tranche of US\$15,0 million is being advanced in tranches as per the amended and restated loan agreement with RCF (“Amended RCF Agreement”). Furthermore, the RCF bridge loan facility of US\$4,0 million, the original RCF convertible loan facility of US\$6,0 million (“Original RCF Convertible Loan”) and the final tranche were rolled up into one facility (“RCF Convertible Loan”), which is convertible at a price of C\$0.1446 per common share of the Company (“Common Share”) and matures on June 30, 2019.

There are two types of advances per the Amended RCF Agreement:

- scheduled advances of funds by RCF to BC Corp of approximately US\$4,8 million (approximately R48,5 million); and
- equipment advances of approximately US\$10,2 million (approximately R103,0 million), whereby funds will be advanced by RCF directly to equipment suppliers on behalf of the Company.

On July 4, 2014, the Company received the first scheduled advance of US\$4,4 million (approximately R47,0 million) from RCF which was advanced to Buffalo Coal Dundee Proprietary Limited (formerly Forbes Coal Proprietary Limited) (“BC Dundee”) as a shareholder loan. US\$ 1,2 million (approximately R12,9 million) was advanced back to the Company as a management fee. Of the remaining funds received by BC Dundee, R24,3 million was deposited into the Investec Bank Limited (“Investec”) working capital facility and R9,8 million was paid into the Investec bullet facility, as per the terms of the amended and restated agreement with Investec (“Amended Investec Agreement”) (refer to note 6).

In August 2014, the Company received the second tranche of the scheduled advances of US\$0,2 million (approximately R2,4 million) from RCF, which was advanced to BC Dundee. Subsequent to period-end, the Company received the third tranche of US\$0,05 million (approximately R0,5 million) from RCF which was advanced to BC Dundee.

During the period ended September 30, 2014, a total of US\$5,6 million (approximately R60,2 million) was advanced by RCF directly to equipment suppliers, on behalf of BC Dundee, for the acquisition of assets and equipment as specified in the Amended RCF Agreement. Subsequent to period-end, a further US\$0,1 million (approximately R1,1 million) was advanced by RCF directly to equipment suppliers on behalf of BC Dundee.

The Company issued 5 531 120 Common Shares to RCF at a price of C\$0.1446 per Common Share, to settle the establishment fee on the final tranche of the facility. During CYQ2 2014, the Company has issued 5 758 883 Common Shares to RCF to settle the interest owing on the RCF Convertible Loan for the periods ending June 30, 2014 to August 31, 2014. The Common Shares were issued at a price per share ranging between C\$0.0918 to C\$0.01207, which was the 20-day volume weighted average price as at the date the payment was due.

In terms of IAS 39, *Financial Instruments: Recognition and Measurement*, the roll up of the loan was treated as a modification as the terms of the RCF Convertible Loan were not, by definition, substantially different from those of the bridge loan and original convertible loan facilities.

The RCF Convertible Loan has been recognized in two parts, a component liability and a conversion option liability. An embedded derivative exists due to the convertible loan facility being denominated in US Dollars and the functional currency being Rands. The component liability will be accreted to its face value of US\$20,2 million (approximately R227,8 million) using the effective interest rate method at approximately 36%.

BUFFALO COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements
For the periods ended September 30, 2014 and August 31, 2013
(Presented in South African Rands) (Unaudited)

5 RESOURCE CAPITAL FUND V L.P (“RCF”) LOAN FACILITIES (continued)

The initial carrying value of the conversion option liability at each advance was obtained using the Black-Scholes option pricing model and the following assumptions: expected volatility between 84% and 108%, expected life of between 4.9-5.0 years, risk-free interest rate of 1.5% and expected dividend yield of 0%.

The fair value of the conversion option liability at September 30, 2014 was obtained using the Black-Scholes option pricing model and the following assumptions: expected volatility of 60%, expected life of 4.8 years, risk-free interest rate of 1.5% and expected dividend yield of 0%.

In terms of the Amended RCF Agreement, the Company was released from the security previously provided to RCF which included a special notarial bond over the anthracite stockpile at July 31, 2013, the cession of a specified bank account into which all the proceeds from the sale of such anthracite stockpile were transferred and security over BC Dundee’s shares.

Effective July 3, 2014 and in terms of the Amended RCF Agreement, RCF has taken a first ranking special notarial bond from the Company over the new equipment as specified in the Amended RCF Agreement and acquired using the proceeds of the RCF Convertible Loan. Furthermore, RCF has taken second ranking security over BC Dundee’s shares and all other moveable and immovable assets of the Company.

6 RESTRUCTURED INVESTEC BORROWINGS

On July 3, 2014, BC Dundee finalized a restructuring of the Investec loan facilities on the following terms:

- five-year senior secured amortizing term loan facility of R90,0 million. The term loan facility accrues interest monthly at JIBAR plus 4%, with only interest payable on a quarterly basis up to December 2015. The first principle payment is due in December 2015 and thereafter, including interest, on a quarterly basis. The Amended Investec Agreement requires the Company to make payments if excess cash is available during the 18 month grace period up to a maximum of R4,5 million on a quarterly basis;
- five-year senior secured loan facility of R50,0 million (the “Bullet Facility”) repayable by way of a bullet repayment at the end of the facility life. The Bullet Facility accrues interest at JIBAR plus 4% with the first interest payment due in December 2015 and thereafter the Company will make quarterly repayments of interest only; and
- five-year senior secured revolving credit facility of R30,0 million repayable on the final maturity date being July 3, 2019. Interest accrues at prime plus 0.5%, payable monthly.

The Amended Investec Agreement provides for certain covenants to be maintained, however, as part of the restructuring, BC Dundee is only required to report covenants to Investec commencing December 2015.

Investec has subscribed for 34 817 237 warrants in the Company with a strike price of C\$0.1446, the proceeds of which, if exercised, will be applied against settlement of the Bullet Facility. RCF has the right to acquire the warrants from Investec at agreed pricing during the period, ending on July 3, 2019.

The Bullet Facility and the warrants have been treated as a compound financial instrument, as the Bullet Facility could effectively be settled through the issuance of the Company’s Common Shares. Furthermore, an embedded derivative exists due to the warrants being denominated in Canadian Dollars and the functional currency of the Company being Rands. The Bullet Facility has been recognized in two parts, a component liability and a warrant liability.

BUFFALO COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements
 For the periods ended September 30, 2014 and August 31, 2013
(Presented in South African Rands) (Unaudited)

6 RESTRUCTURED INVESTEC BORROWINGS (continued)

The component liability will be accreted to its face value of R40,5 million using the effective interest rate method at approximately 34.8%.

The initial carrying value of the warrant liability was obtained using the Black-Scholes option pricing model and the following assumptions: expected volatility of 100.0%, expected life of 5.0 years, risk-free interest rate of 1.71% and an expected dividend yield of 0%.

The fair value of the warrant liability at period-end was obtained using the Black-Scholes option pricing model and the following assumptions: expected volatility of 60%, expected life of 4.8 years, risk-free interest rate of 1.5% and an expected dividend yield of 0%.

The restructured Investec loan facilities are secured by first ranking security over BC Dundee's shares and all the moveable and immovable assets of the Company, and second ranking security over all new equipment acquired using the proceeds of the RCF Convertible Loan.

7 COMMITMENTS AND CONTINGENCIES**Management Contracts**

The new management contracts, as discussed in the PY2014 annual consolidated financial statements, require that payments of approximately R12,6 million be made upon the occurrence of a change of control, other than a change of control attributable to RCF.

Capital Commitments

Capital expenditures contracted for at the statement of financial position date but not recognized in the Interim Results are as follows:

	September 30, 2014 R	February 28, 2014 R	September 30, 2014 C\$
Property, plant and equipment	74 277 666	8 271 945	7 357 502

Included in the R8,3 million disclosed in PY2014 was a commitment to purchase a mining right from Ikwezi Mining Proprietary Limited ("Ikwezi"). The agreement between BC Dundee, Zinoju Coal Proprietary Limited ("Zinoju") and Ikwezi, lapsed on June 30, 2014 as a result of not receiving regulatory consent from the Minister of Mineral Resources within the expected timelines (in terms of section 102 of the Mineral and Petroleum Resources Development Act 28 of 2004 ("MPRDA")). The parties are currently in discussion regarding the terms of a new agreement. Included in the R74,3 million disclosed as of September 30, 2014 are commitments relating to the purchase of machinery and equipment which will be funded by equipment advances from RCF and excludes the R8,0 million commitment relating to the purchase of the mining right from Ikwezi.

BUFFALO COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements
For the periods ended September 30, 2014 and August 31, 2013
(Presented in South African Rands) (Unaudited)

7 COMMITMENTS AND CONTINGENCIES (continued)**Environmental Contingency**

The Company's mining and exploration activities are subject to various laws and regulations governing the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to continue to comply with such laws and regulations.

Outstanding Legal Proceedings

On August 29, 2014 the Company reached a settlement agreement with Sasfin Bank Limited ("Sasfin") with regards to Sasfin's claim for advisory fees in relation to the Riversdale Holding Proprietary Limited acquisition agreement. The settlement agreement requires the Company to pay R2,1 million in two instalments of which the first instalment of R1,0 million was paid in September 2014 and the second of R1,1 million is payable in September 2015. This amount has been provided for as of September 30, 2014. Pursuant to the terms of the settlement agreement, such payment is in full and final settlement of all claims which either party may have against each other.

An appeal was lodged in terms of section 96 of the MPRDA, by the Avemore Trust, challenging the Department of Mineral Resources ("DMR") in relation to the grant of Mining Right 174 to Zinoju. Zinoju has lodged its replying submission to the DMR and in the interim, pending the outcome of the process embarked upon by Avemore Trust, Zinoju remains the holder of Mining Right 174 and is entitled to continue mining in the area covered by Mining Right 174. The Group is taking various steps to mitigate any potential risks in relation to the appeal.

8 CHANGE IN DIRECTORS AND OFFICERS

On June 12, 2014, the Company announced the appointment of Mr. David Thomas to the Board of Directors. The appointment of Mr. Thomas follows the resignation of Mr. Thomas Quinn Roussel who stepped down as a director of the Company.

Mr. Neil Said resigned from his position as Corporate Secretary following the closing of the funding transactions with RCF on July 3, 2014 (refer to note 5) and the Company appointed Ms. Lorraine Harrison to the position of Corporate Secretary on the same day.

On July 18, 2014, the Company announced the resignation of Mr. Bernard Wilson from the Board of Directors with effect from July 7, 2014.

9 SUBSEQUENT EVENTS**Issuance of Share Capital**

Subsequent to September 30, 2014, the Company issued additional shares to RCF in settlement of interest owing on the RCF Convertible Loan for the periods ending September 30, 2014 and October 31, 2014. An additional 1 725 791 and 1 846 153 Common Shares were issued at prices of C\$0.1308 and C\$0.1232, respectively.

BUFFALO COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements
For the periods ended September 30, 2014 and August 31, 2013
(Presented in South African Rands) (Unaudited)

9 SUBSEQUENT EVENTS (continued)**Shares in Escrow**

On July 20, 2010, the shareholders of the Company were issued 2 700 000 performance special warrants (the "Performance Special Warrants"). Each Performance Special Warrant was automatically exercised into one Common Share of the Company for no additional consideration immediately prior to the completion of the Nyah Resources Inc. acquisition, provided that such shares were deposited in escrow with an escrow agent (the "Escrowed Shares").

In November 2011, 50% of the Escrowed shares (the "First Tranche Escrowed Shares") were released as the target EBITDA of BC Dundee of US\$22,0 million was achieved. Subsequent to September 30, 2014, the remaining Escrowed Shares were cancelled, as BC Dundee had not achieved the target EBITDA of US\$35,0 million over a consecutive twelve month period within a three year-period following the release of the First Tranche Escrowed Shares.

Other Matters

Except for the matters discussed above, no other matters which management believes are material to the financial affairs of the Company have occurred between the statement of financial position date and the date of approval of the financial statements.