



BUFFALO COAL CORP.

(Formerly known as Forbes & Manhattan Coal Corp.)

CONSOLIDATED FINANCIAL STATEMENTS

For the ten months ended December 31, 2014 and
twelve months ended February 28, 2014

(Presented in South African Rands)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Buffalo Coal Corp. (formerly Forbes & Manhattan Coal Corp.):

We have audited the accompanying consolidated financial statements of Buffalo Coal Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and February 28, 2014, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the ten-month period ended December 31, 2014 and the twelve-month period ended February 28, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

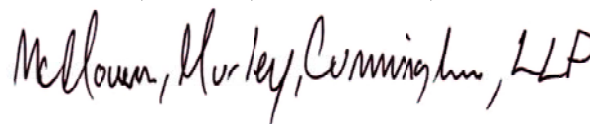
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Buffalo Coal Corp. and its subsidiaries as at December 31, 2014 and February 28, 2014, and their financial performance and cash flows for the ten-month period ended December 31, 2014 and the twelve-month period ended February 28, 2014 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2.1 in the consolidated financial statements which indicates that the Company has continued to incur losses during the year ended December 31, 2014 and has a working capital deficiency as at December 31, 2014. The Company has experienced operational challenges, and has a significant need for equity capital and financing for operations and working capital. These conditions along with other matters set forth in Note 2.1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
March 26, 2015

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

		December 31, 2014	February 28, 2014 (Note 5)	March 1, 2013 (Note 5)	December 31, 2014 (Note 2)
	Notes	R	R	R	C\$
Assets					
Non-current assets					
Property, plant and equipment	10	561 403 916	575 220 923	616 027 553	56 232 050
Intangible assets	11	-	11 506 000	32 803 013	-
Goodwill	11	-	-	134 508 493	-
Investment in financial assets	12	29 134 182	23 586 748	23 343 914	2 918 175
Deferred tax asset	13	15 495 588	-	-	1 552 089
Other receivables	14	14 238 959	3 907 685	3 346 954	1 426 220
Long-term restricted cash	17	11 200 000	11 200 000	12 542 241	1 121 829
Total non-current assets		631 472 645	625 421 356	822 572 168	63 250 363
Current assets					
Trade and other receivables	14	95 474 959	77 597 078	54 075 952	9 563 084
Inventories	15	27 034 967	73 376 235	89 618 092	2 707 911
Current portion of investment in financial assets	12	-	-	16 592 600	-
Interest bearing receivables	16	-	29 140 388	46 947 676	-
Non-interest bearing receivables	16	1 587 765	1 504 434	1 034 384	159 036
Taxation receivable		2 336 605	9 115 182	18 801 738	234 041
Restricted cash	17	-	6 190 531	441 305	-
Cash and cash equivalents	18	12 120 081	14 582 999	26 704 813	1 213 987
Total current assets		138 554 377	211 506 846	254 216 560	13 878 059
Total assets		770 027 022	836 928 202	1 076 788 728	77 128 421
Equity and liabilities					
Capital and reserves					
Share capital	19	937 966 442	948 816 452	859 151 468	93 949 782
Currency translation reserve		(219 945 085)	(268 857 222)	(189 150 061)	(22 030 418)
Reserves	20	19 599 807	29 872 065	63 284 986	1 963 181
Accumulated retained loss		(497 359 808)	(385 446 596)	(146 066 853)	(49 817 183)
Equity attributable to owners of the company		240 261 356	324 384 699	587 219 540	24 065 362
Non-controlling interest		4 339 142	4 339 142	4 339 142	434 623
Total equity		244 600 498	328 723 841	591 558 682	24 499 985
Non-current liabilities					
Borrowings	21	132 047 902	91 228 073	128 582 544	13 226 349
Warrant liability	21	8 818 534	-	-	883 293
RCF loan facilities	22	132 542 252	50 887 479	-	13 275 865
Conversion option liability	22	54 088 555	7 828 422	-	5 417 686
Asset retirement obligation	23	18 758 187	31 929 112	29 906 948	1 878 881
Deferred tax liability	13	-	47 204 251	83 179 991	-
Total non-current liabilities		346 255 430	229 077 337	241 669 483	34 682 074
Current liabilities					
Trade and other payables	24	170 506 885	170 161 406	146 647 964	17 078 528
Current portion of borrowings	21	6 000 000	65 578 297	94 217 841	600 980
Current portion of RCF loan facilities	22	-	40 723 113	-	-
Current portion of asset retirement obligation	23	2 664 209	2 664 209	2 694 758	266 855
Total liabilities		179 171 094	279 127 025	243 560 563	17 946 362
Total liabilities		525 426 524	508 204 362	485 230 046	52 628 436
Total equity and liabilities		770 027 022	836 928 203	1 076 788 728	77 128 422

Commitments and contingencies

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Approved on behalf of the Board:Signed "Craig Wiqqill", DirectorSigned "Robert Francis", Director

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

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

	Notes	10 months ended December 31, 2014 R	12 months ended February 28, 2014 (Note 5) R	10 months ended December 31, 2014 (Note 2) C\$
Revenue		593 841 226	688 414 504	59 481 077
Cost of sales	6	(637 994 419)	(710 985 206)	(63 903 605)
Gross loss		(44 153 193)	(22 570 702)	(4 422 528)
Other (expense)/income - net	7	(22 558 050)	(171 911 798)	(2 259 488)
General and administration expenses	6	(59 982 910)	(81 869 748)	(6 008 084)
Loss before the undernoted		(126 694 153)	(276 352 248)	(12 690 100)
Finance income	8	1 073 085	3 236 090	107 484
Finance expense	8	(37 425 325)	(24 345 023)	(3 748 643)
Loss before income tax		(163 046 393)	(297 461 181)	(16 331 259)
Income tax benefit	9	54 605 580	19 396 655	5 469 473
Loss for the year		(108 440 812)	(278 064 525)	(10 861 785)
Other comprehensive loss		-	(79 707 161)	-
Total comprehensive loss for the year		(108 440 812)	(357 771 686)	(10 861 785)
Loss attributable to:				
- Owners of the parent		(108 440 812)	(357 771 686)	(10 861 785)
- Non-controlling interest		-	-	-
		(108 440 812)	(357 771 686)	(10 861 785)
Net loss per share - basic and diluted		(2.11)	(7.97)	(0.21)
Headline loss per share - basic and diluted		(2.10)	(7.79)	(0.21)
Weighted average number of common shares outstanding:				
- Basic		51 408 750	34 873 429	51 408 750
- Diluted		51 408 750	34 873 429	51 408 750

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

BUFFALO COAL CORP.

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

	Notes	Attributable to owners of the Group							Non-controlling interest	Total equity
		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	5	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
Shares issued in relation to RCF Convertible Loan	19	3 041 047	5 607 185	-	-	-	-	5 607 185	-	5 607 185
Stock-based compensation		-	-	3 316 760	-	-	-	3 316 760	-	3 316 760
Stock options expired/cancelled	20	-	-	(38 682 761)	-	38 682 761	-	-	-	-
Other comprehensive gain/(loss) for the period		-	84 057 799	1 953 080	-	2 022	(79 707 161)	6 305 740	-	6 305 740
Net loss for the period		-	-	-	-	(278 064 526)	-	(278 064 526)	-	(278 064 526)
Balance at February 28, 2014	5	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	19	20 119 629	24 014 735	-	-	-	-	24 014 735	-	24 014 735
Stock-based compensation		-	-	302 734	-	-	-	302 734	-	302 734
Stock options expired/cancelled	20	-	-	(10 574 992)	-	10 574 992	-	-	-	-
Cancellation of shares in escrow	25	(1 350 000)	(34 864 745)	-	-	34 864 745	-	-	-	-
Net loss for the period		-	-	-	-	(108 440 812)	-	(108 440 812)	-	(108 440 812)
Balance at December 31, 2014		56 196 711	937 966 442	10 526 096	9 073 711	(497 359 808)	(219 945 085)	240 261 356	4 339 142	244 600 498

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

BUFFALO COAL CORP.

Consolidated Statements of Cash Flow
(Presented in South African Rands)

	Notes	10 months December 31, 2014 R	12 months February 28, 2014 (Note 5) R	10 months December 31, 2014 (Note 2) C\$
Cash flows from operating activities				
Cash (utilized in)/generated from operations	27	(15 617 886)	5 354 138	(1 564 338)
Interest received		1 073 085	1 084 015	107 484
Interest paid		(8 787 101)	(18 413 418)	(880 145)
Taxation (paid)/recovered		(1 315 599)	8 903 441	(131 775)
Net cash utilized in operating activities		(24 647 501)	(3 071 824)	(2 468 774)
Cash flows from investing activities				
Investment in financial assets		(3 846 794)	(7 843 936)	(385 305)
Proceeds from maturity of financial assets		-	27 120 504	-
Purchase of property, plant and equipment		(138 210 966)	(60 678 117)	(13 843 662)
Proceeds from the disposal of property, plant and equipment		3 360 526	7 191 872	336 601
Movement in non-current other receivables		(10 331 276)	-	(1 034 814)
Settlement of cancelled Riversdale Acquisition		29 140 388	-	2 918 796
Movement in non-interest bearing receivables		(83 331)	(481 784)	(8 347)
Movement in restricted cash		6 190 532	(4 513 593)	620 064
Net cash utilized in investing activities		(113 780 921)	(39 205 054)	(11 396 668)
Cash flows from financing activities				
Proceeds from RCF Convertible Loan		139 637 969	105 827 928	13 986 595
Issuance costs related to the RCF Convertible Loan		(3 280 665)	(6 432 065)	(328 602)
Drawdowns from the revolving credit facility		11 037 071	-	1 105 509
Repayment of borrowings		(8 695 265)	(63 467 241)	(870 946)
Issuance costs related to restructuring of borrowings		(2 733 605)	-	(273 807)
Movement in loans payable		-	(214 798)	-
Net cash generated from financing activities		135 965 504	35 713 823	13 618 748
Net decrease in cash and cash equivalents		(2 462 918)	(6 563 055)	(246 694)
Cash at the beginning of the period		14 582 999	26 704 813	1 460 681
Exchange loss on cash and cash equivalents		-	(5 558 759)	-
Cash at the end of the period		12 120 081	14 582 999	1 213 987

Non-cash investing and financing transactions

Equipment purchased under short term finance lease arrangement		(18 643 930)	-	(1 867 437)
Warrants issued relating to restructured borrowings		22 987 796	-	2 302 533
Common shares issued in settlement of the establishment fees relating to the RCF loan facility		15 946 835	3 959 894	1 597 287
Common shares issued in settlement of the interest owing on the RCF loan facilities		8 067 900	1 647 291	808 107
Cancellation of shares in escrow		(34 864 745)	-	(3 492 167)
Total		(6 506 144)	5 607 185	(651 677)

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

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

1 BASIS OF PREPARATION

Buffalo Coal Corp. (previously known as “Forbes & Manhattan Coal Corp”) (individually, or collectively with its subsidiaries, as applicable, the “Company”, “BC Corp” or the “Group”) is a coal mining company incorporated in Ontario, Canada. The Company is listed on the Toronto Stock Exchange (“TSX”) and the Johannesburg Stock Exchange (“JSE”). The registered office of the Company is Brookfield Place, Bay/Wellington Tower, 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3. The head office of the Company is located at Portion 3rd Floor, Building 13, Woodlands Office Park, Cnr Woodlands & Kelvin Drive, Woodmead, Johannesburg, South Africa, 2052. These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 26, 2015.

The Company owns a 100% interest in Buffalo Coal Dundee Proprietary Limited (previously known as “Forbes Coal Proprietary Limited”) (“BC Dundee”), a South African company that holds an interest in coal mines in South Africa. BC Dundee holds a 70% interest in Zinoju Coal Proprietary Limited (“Zinoju”) (collectively “BC Dundee Group”) which holds the mineral rights relating to the mining properties. The properties comprise of the operating Magdalena bituminous mine (“Magdalena”) and the Aviemore anthracite mine (“Aviemore”) which are engaged in open-pit and underground coal mining. The remaining 30% interest in Zinoju is held by South African Black Economic Empowerment (“BEE”) partners. BEE is a statutory initiative on behalf of the South African government, enacted to increase access by historically disadvantaged South Africans (“HDSA”) to the South African economy by increasing HDSA ownership in South African enterprises.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current operations will result in profitable mining operations. The recoverability of the carrying value of property, plant and equipment and intangibles assets and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, ability to transport and sell its coal, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs to the carrying values. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

Although the Company has taken steps to verify title to the properties on which it is conducting its exploration, development and mining activities, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, land claims and non-compliance with regulatory and environmental requirements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These annual consolidated financial statements of the Group were prepared in accordance with 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. The policies set out below were consistently applied to all the years presented unless otherwise noted below.

The annual consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets at fair value through profit or loss and compound financial instruments.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.1 Basis of preparation (continued)**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

The consolidated financial statements 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 third tranche of funding of US\$15,0 million with Resource Capital Fund V L.P (“RCF”) on July 3, 2014, which has been used to finance new capital items and for working capital purposes. The Company continues to incur 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 Magdalena and Aviemore for a period of time. Furthermore, the performance at Magdalena has deteriorated significantly over the past financial year which has resulted in the Company implementing a restructuring at the mine. Subsequent to December 31, 2014, the Company has signed a term sheet for an additional US\$4,0 million bridge loan from RCF which will be used for the restructuring and for working capital purposes (note 32). The Company believes that, barring any further unforeseen incidents and subject to meeting the current forecasts, the current steps the Company is and has taken (including obtaining additional funding from RCF, the restructuring of loss making contracts and restructuring of the mine operations) will enable it to operate profitably in the foreseeable future and generate positive cash flows. The current material uncertainties cast 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 these annual consolidated financial statements 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. Such adjustments could be material.

Effective March 1, 2014, the Group and its subsidiaries changed their financial year-ends from February 28 to December 31. References to CY2014 mean the financial year ended December 31, 2014, and to PY2014 mean the financial year ended February 28, 2014.

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 December 31, 2014 and the financial results for the ten months ended December 31, 2014 were translated into Canadian Dollars using a convenience translation at the rate of C\$1:R9.9837, which is the exchange rate published on Oanda.com as of December 31, 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.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New standards, amendments and interpretations

The following standards, amendments and interpretations are issued and effective for the first time for the December 31, 2014 financial year-end:

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 statement of financial position. However, the clarified offsetting requirements for amounts presented in the statement of financial position continue to be different from United States Generally Accepted Accounting Practice (“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 costs of disposal. The amendment has been incorporated and disclosed appropriately in note 11.

Amendments to IAS 39 – ‘Financial instruments: Recognition and Measurement’

The IASB 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.

The following standards, amendments and interpretations are issued but not yet effective for the December 31, 2014 financial year-end:

IFRS 9 – ‘Financial Instruments’ – effective January 1, 2018

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (“FVTOCI”) measurement category for certain simple debt instruments.

All recognized financial assets that are within the scope of IAS 39, *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. In addition, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New standards, amendments and interpretations (continued)

The following standards, amendments and interpretations are issued but not yet effective for the December 31, 2014 financial year-end (continued):

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income ("OCI"), unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Group anticipates that the application of IFRS 9 in future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group undertakes a detailed review.

IFRS 10 – 'Consolidated Financial Statements' and IAS 28 – 'Investments in Associates and Joint Ventures' – effective January 1, 2016

IFRS 10 and IAS 28 were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss on recognition depends on whether the assets sold or contributed constitute a business. The Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

IFRS 11 – 'Joint Arrangements' – effective January 1, 2016

IFRS 11 was amended in May 2014 to require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

IFRS 15 – 'Revenue from Contracts with Customers' – effective January 1, 2017

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18, *Revenue*; IAS 11, *Construction Contracts* and the related Interpretations when it becomes effective.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New standards, amendments and interpretations (continued)

The following standards, amendments and interpretations are issued but not yet effective for the December 31, 2014 financial year-end (continued):

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Group anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

IAS 1 – 'Presentation of Financial Statements' – effective January 1, 2016

IAS 1 was amended in December 2014 in order to clarify, among other things, that useful information should not be obscured by aggregating or disaggregating that information and that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

IAS 27 – 'Separate Financial Statements' – effective January 1, 2016

IAS 27 was amended in August 2014 to reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 16 – 'Property, Plant and Equipment', and IAS 38 – 'Intangible Assets' - Clarification of Acceptable Methods of Depreciation and Amortization – effective January 1, 2016

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. The presumption can only be rebutted in the following two limited circumstances: when the intangible asset is expressed as a measure of revenue; or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Currently, the Group uses the straight-line or units of production method for depreciation and amortization of its property, plant and equipment, and intangible assets respectively. The Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 19 – 'Defined Benefit Plans: Employee Contributions' – effective July 1, 2014

These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New standards, amendments and interpretations (continued)

The following standards, amendments and interpretations are issued but not yet effective for the December 31, 2014 financial year-end (continued):

Annual Improvements to IFRSs 2010-2012 Cycle – effective July 1, 2014:

IFRS 2, 'Share-based Payments' - The amendments clarify the definition of a 'vesting condition' and separately define 'performance condition' and 'service condition'.

IFRS 3, 'Business Combinations' – The amendments clarify that a contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognized in profit or loss.

IFRS 8, 'Operating Segments' - The amendments require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

IFRS 13, 'Fair Value Measurements' - The amendments to the basis for conclusions of IFRS 13 and consequential amendments to IAS 36 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

IAS 16 and IAS 38 - The amendments remove perceived inconsistencies in the accounting for accumulated depreciation/amortization when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortization is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

IAS 24, 'Related Party Disclosure' - The amendments clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The Group does not anticipate that the application of these amendments will have a significant impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle – effective July 1, 2014:

IFRS 3 - The amendment clarifies that the standard does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of the joint arrangement itself.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New standards, amendments and interpretations (continued)

The following standards, amendments and interpretations are issued but not yet effective for the December 31, 2014 financial year-end (continued):

IFRS 13 – The amendment clarifies that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

IAS 40, '*Investment Property*' - The amendment clarifies that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

The Group does not anticipate that the application of these amendments will have a significant impact on the Group's consolidated financial statements.

2.3 Consolidation

The annual consolidated financial statements comprise the financial statements of the Company and its subsidiaries, BC Dundee, Zinoju, Zinoju Rehabilitation Trust ("the Trust") and Buffalo Coal Proprietary Limited ("BC") (previously "Bowwood and Main No 33 Proprietary Limited").

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.3 Consolidation (continued)****(a) Subsidiaries (continued)**

Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to OCI. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, in respect of the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits or losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. Acquisition-related costs are expensed as incurred.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in OCI in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in OCI are reclassified to profit or loss. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in OCI is reclassified to profit or loss where appropriate.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments. The chief operating decision-maker has been identified as the Board of Directors.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Rands, which is the Group's presentation currency and the Company's functional currency. The functional currency of the Company's subsidiaries, namely BC Dundee, Zinoju, the Trust and BC, is South African Rands (note 5).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Foreign exchange gains and losses are presented in profit or loss within "other (expense)/income – net".

2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation of mineral rights is calculated using the units-of-production ("UOP") method based on total run of mine tons of coal expected to be mined per the life-of-mine plan ("LOM"). Depreciation on the remaining assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	10-20 years
Development costs	5-20 years
Mining assets	5 to 25 years
Office equipment and fixtures and fittings	3 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in profit or loss.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.6 Property, plant and equipment (continued)***Mineral rights*

Mineral rights are recorded at cost. This includes costs incurred to explore, sample, drill and perform feasibility tests when incurred before the research proves the land to be technically feasible and commercially viable, at which point the costs are reclassified as mining assets within property, plant and equipment. Exploration and evaluation costs incurred before mineral rights are acquired are expensed in profit or loss. Depreciation of mineral rights is calculated using the UOP method.

2.7 Intangible assets*Richards Bay Coal Terminal ("RBCT") entitlements*

Amortization of the RBCT entitlements is calculated using the UOP method based on total run of mine tons of coal expected to be mined per the LOM.

2.8 Leased assets

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the lower of the fair value of the leased property or the estimated present value of the underlying lease payment. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in interest bearing borrowings. The interest element of the finance charges is charged to the profit or loss over the lease period. Property, plant and equipment acquired under finance leasing contracts are depreciated over the useful lives of the assets. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.9 Impairment of non-financial assets

At least annually, or when events and circumstances warrant a review, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. The carrying value of an asset is considered to be impaired when the recoverable amount of such an asset is less than its carrying value. In this instance, a loss is recognized based on the amount by which the carrying value exceeds the recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets (including goodwill) are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable willing parties, less the costs of disposal.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of non-financial assets (continued)

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless it relates to goodwill, in which case it is not reversed.

2.10 Financial instruments

2.10.1 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss and as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as such unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months, otherwise they are classified as non-current. The Group's financial assets held for trading comprise of cash equivalents, endowment policies (which matured during the PY2014 financial year) and other long-term investments which are included in 'investments in financial assets' in the statement of financial position.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the statement of financial position date, which are classified as non-current assets. The Group's loans and receivables comprise of trade and other receivables, cash and long term receivables, interest and non-interest bearing receivables in the statement of financial position.

(c) Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade-date, being the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in profit or loss. Loans and receivables are initially carried at fair value and subsequently at amortized cost using the effective interest rate method.

Financial assets are derecognized 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. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in profit or loss within 'other (expense)/income – net'.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

2.10.1 Financial assets (continued)

(d) Impairment

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables (Refer to note 2.12).

(e) Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

2.10.2 Financial liabilities

Financial liabilities are classified as other financial liabilities and include borrowings, RCF loan facilities, loans payable and trade and other payables. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

The Group derecognizes financial liabilities when the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

2.10.3 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible loans that can be converted to share capital at the option of the holder. The instrument is classified separately as a financial liability and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to issued capital. When the conversion option remains unexercised at the maturity date of the convertible note, the balance recognized in equity will be transferred to retained earnings/loss.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

2.10.3 Compound financial instruments (continued)

No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Foreign-currency-denominated convertible loans that will be settled by the Company delivering a variable number of its shares for a fixed amount of foreign currency will be classified as a financial liability. The conversion option is an embedded derivative, which is separated as it is not closely related to the debt host. Changes in the fair value of the embedded derivative liability will be recorded in profit or loss.

Transaction costs that relate to the issue of the convertible loans are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transactions costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible loans using the effective interest rate method.

2.10.4 Derivative financial instruments

Derivatives are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. The Group's derivative instruments are not designated as hedging instruments and do not qualify for hedge accounting. Accordingly, changes in the fair value of the derivative instruments are recognized immediately in profit or loss within 'Other (expense)/income – net'.

2.11 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity. In this case, the tax is recognized directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.11 Current and deferred income tax (continued)**

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.12 Trade and other receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables and is recognized in profit or loss within 'operating expenses'. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. When a trade receivable is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited against 'operating expenses' in profit or loss.

2.13 Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first in, first out ("FIFO") method. The cost of finished goods and work in progress comprises operating costs which are absorbed into stock on hand, based on the level of extraction during the period in which such stock was mined and the costs incurred during such period. Overheads are allocated on the same basis. Inventories exclude borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

2.15 Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees and consultants as consideration for equity instruments (options) of the Group. The fair value of the employee and consulting services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted and is recognized within profit or loss. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision in the income statement, with a corresponding adjustment to equity.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.15 Share-based payments (continued)**

For those options which vest immediately and are subsequently cancelled, the adjustments are made directly in equity between the reserves and retained loss.

The fair value of common shares issued as compensation is based on the quoted market price.

The fair value of stock options and compensation warrants is determined using the Black-Scholes option-pricing model. The compensation expense is recognized over the vesting period. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the vesting conditions. The Group recognizes the impact of the revision to original estimates in profit or loss, with a corresponding adjustment to equity.

When the options and warrants are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs, together with any related amount in reserves, are credited to share capital.

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

2.17 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

The Group's provision for asset retirement obligations ("ARO") is measured at the present value of the amount expected to be required to settle the obligation using a risk-free rate that reflects the rate of interest on monetary assets that are essentially free of default risk, adjusted for the effect of any entity's credit standing. Future costs to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site, are recognized and recorded as a provision for close down rehabilitation costs at fair value in the accounting period in which the legal obligation arising from the disturbance occurs. The liability is accreted over time through periodic charges to operations. The fair value of the costs is capitalized as part of the assets' carrying value and amortized over the assets' estimated useful lives.

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out a restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with ongoing activities of the entity.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.18 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of coal in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

(a) Sale of coal

The Group extracts, washes and sells coal. Sales are recognized when the entity has delivered products to the customer, the customer has full discretion over the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have either been shipped, (for certain foreign sales), or the date upon which the goods are dispatched to the customer, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) Interest income

Interest income is recognized on a time-proportion basis using the effective interest rate method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

(c) Other income

Other income is recognized on an accrual basis and comprises primarily foreign exchange gains and losses, profit on sale of assets and scrap sales.

2.19 Employee benefits**(a) Defined contribution plans**

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as an employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

(b) Short-term employee benefits

The cost of short-term employee benefits (those payable within twelve months after the service is rendered), such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical, are recognized in the period in which the service is rendered and are not discounted.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.20 Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest rate method, and any difference between proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

2.21 Loss per share

Basic loss per common share has been computed by dividing the loss applicable to common shareholders by the weighted-average number of common shares outstanding during the representative period. Diluted loss per common share is determined under the assumption that deemed proceeds on the exercise of stock options and other dilutive instruments are considered to be used to reacquire common shares at the average price for the period with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share. As at December 31, 2014, outstanding options, loans and warrants, as well as the potential shares issuable with regards to the RCF convertible loan, referred to in Note 22, were excluded from the diluted loss per share calculation as they were anti-dilutive.

Headline earnings/(loss) per share is a basis for measuring earnings per share accounts for all the profits and losses from operational, trading, and interest activities, that have been discontinued or acquired at any point during the year. Excluded from this figure are profits or losses associated with the sale or termination of discontinued operations, fixed assets or related businesses, or from any permanent devaluation or write-off of their values. For the CY2014 financial year, the Company's headline loss per share was adjusted for the profit on sale of property, plant and equipment of R0,2 million (PY2014: R7,0 million).

2.22 Comparative figures

Certain comparative amounts have been reclassified to conform to the current year's presentation. Due to the change in financial year-end, the comparative amounts may not be directly comparable for items disclosed in profit or loss.

3 FINANCIAL RISK MANAGEMENT**3.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks such as foreign exchange risk, price risk, cash flow interest rate risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors (continued)

Risk management is carried out by head office management under policies approved by the Board of Directors. The Group identifies, evaluates and manages financial risks in close co-operation with the Group's subsidiaries.

3.2 Market risk

(a) Foreign exchange risk

The Company's functional currency is the Rand. BC Corp's functional currency was changed on March 1, 2014 from Canadian Dollars to Rands. This change reduces the exposure of foreign exchange risk on the consolidated financial statements. The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures with respect to the US Dollar and Canadian Dollar. The Group's foreign exchange risk arises primarily from the sale of coal, based on the API 4 coal price index in US Dollars to foreign customers, external loans denominated in US Dollars and translation differences arising from the translation of share capital and other equity items.

At December 31, 2014, a 10% increase/(decrease) in the period average foreign exchange rate between the Canadian Dollar and the Rand, would have increased/(decreased) the Group's profit or loss by approximately R4,1 million (PY2014: R7,0 million).

A 10% increase/(decrease) in the period average foreign exchange rate between the US Dollar and the Rand, would have increased/(decreased) the Group's profit or loss by approximately R28,1 million (PY2014: R4,1 million).

(b) Price risk

The Group is exposed to commodity price risk, primarily due to fluctuations in the API 4 coal price index, by which foreign coal sales are priced. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Group's control. The supply and demand for commodities, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities including governmental reserves and stability of exchange rates can all cause significant fluctuations in commodity prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

At December 31, 2014, a 10% change in the API 4 coal price index would have resulted in a corresponding change in export coal revenue of approximately R13,9 million (PY2014: R30,9 million).

(c) Cash flow interest rate risk

The Group's interest rate risk arises from deposits held with banks and interest-bearing liabilities. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. During CY2014 and PY2014 the Group's borrowings at variable rates were denominated in South African Rands.

Based on the simulations performed, the impact on profit or loss of a 1% shift of interest rates on borrowings would be a maximum increase/(decrease) in profit or loss of R1,4 million (PY2014: R1,6 million).

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***3 FINANCIAL RISK MANAGEMENT (continued)****3.3 Credit risk**

Credit risk is managed at a Group level, except in respect of trade receivables which are managed at an operational level.

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions (refer notes 14 and 30, respectively). The Group only transacts with high quality financial institutions.

Risk control assesses the credit quality of customers, taking into account their financial position, past experience and other factors. The utilization of credit limits is regularly monitored. No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

Restricted cash totaling R11,2 million was on deposit with First National Bank ("FNB") to be released to the relevant counterparties if payments are not made to them (note 17).

3.4 Liquidity risk

Cash flow forecasting is performed by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt/equity financing plans, covenant compliance and external legal requirements.

Below is an analysis of the Group's non-derivative financial liabilities disclosed in maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Not later than 1 year	Between 1 and 5 years	Greater than 5 years
At December 31, 2014			
Borrowings	6 000 000	96 000 000	60 228 930
RCF loan facilities	-	264 970 212	-
Trade and other payables	170 506 885	-	-
At February 28, 2014			
Borrowings	65 577 920	91 228 070	-
RCF loan facilities	42 922 381	64 383 572	-
Trade and other payables	170 161 406	-	-

3.5 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. 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.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

3 FINANCIAL RISK MANAGEMENT (continued)

3.5 Capital risk management (continued)

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

The gearing ratios at December 31, 2014 and February 28, 2014 were as follows:

	December 31, 2014	February 28, 2014
Total borrowings	333 497 243	256 245 384
Less: cash and cash equivalents	(12 120 081)	(14 582 999)
Net debt	321 377 162	241 662 385
Total equity	244 600 498	328 723 841
Total capital	565 977 660	570 386 226
Gearing ratio (net debt/total capital)	57%	42%

Included within total borrowings is a convertible loan of R265,0 million (PY2014: R64,4 million). The Company's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2014 except for the Investec Bank Limited ("Investec") loan as discussed in note 21 and the RCF loan facilities as discussed in note 22.

The Company is not subject to any externally imposed capital requirements with the exceptions as discussed in note 21 and 22 and with regards to Section 710 of the TSX Company Manual which requires adequate working capital or financial resources such that, in the opinion of the TSX, the listed issuer will be able to continue as a going concern. The TSX will consider, among other things, the listed issuer's ability to meet its obligations as they come due, as well as its working capital position, quick asset position, total assets, capitalization, cash flow and earnings as well as accountant's or auditors' disclosures in financial statements regarding the listed issuer's ability to continue as a going concern. Management has concluded that the Company has met the requirements of the TSX at December 31, 2014.

3.6 Fair value estimation

Financial instruments carried at fair value are assigned to different levels of the fair value hierarchy, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (level 3).

The following table presents the group's financial assets and liabilities that are measured at fair value at December 31, 2014 and February 28, 2014:

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***3 FINANCIAL RISK MANAGEMENT (continued)****3.6 Fair value estimation (continued)**

	Level 1 R	Level 2 R	Level 3 R
December 31, 2014			
Investment in financial assets	29 134 182	-	-
Conversion option liability		54 088 555	-
Warrant liability	-	8 818 534	-
February 28, 2014			
Investment in financial assets	23 586 748	-	-
Conversion option liability	-	7 828 422	-

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires the Group's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes thereto. Although these estimates are based on management's best knowledge of the amounts, events or actions, actual results may differ from those estimates and these differences could be material. The areas which require management to make significant judgments, estimates and assumptions in determining the carrying values and amounts include, but are not limited to:

4.1 Provisions

Significant judgment and use of assumptions is required in determining the Group's provisions. Management uses its best estimates based on current knowledge in determining the amount to be recognized as a provision. Key assumptions utilized in the determination of the rehabilitation provision, which is measured at fair value, include the estimated life of mine, estimates of reserves and discount rates. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of the liability that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities. The Group's restructuring provision is based on management's best estimate of the number of employees to be retrenched and the related severance pay which the Group reasonably expects to incur in the forthcoming financial year.

4.2 Property, plant and equipment, mineral rights and other intangible assets

The Group makes use of experience and assumptions in determining the useful lives and residual values of property, plant and equipment, mineral rights and other intangible assets (other than goodwill). Management reviews annually whether any indications of impairment exist. Information that the Group considers includes changes in the market, economic and legal environment in which the Group operates as well as internal sources of information. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, depreciation of the US Dollar relative to the Rand, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics could result in a write-down of the carrying amounts of the Group's assets.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.2 Property, plant and equipment, mineral rights and other intangible assets (continued)

As of December 31, 2014, based on management's estimate of the recoverable amount of the BC Dundee Group, an impairment loss of R79,7 million was recorded, which was in addition to the impairment of Magdalena opencast assets amounting to R11,2 million (note 7). The impairment loss resulted in the write down of certain intangible assets and property, plant and equipment. If the discount rate had been 1% higher than management's estimates, the Group would have recorded a further impairment of approximately R34,0 million. If the API 4 coal price index had been 5% lower than management's estimates, the Group would have recognized a further impairment of R90 million. An impairment loss of R152,0 million was recorded at February 28, 2014 as a result of management's review, which resulted in the impairment of goodwill and certain intangible assets.

4.3 Capitalization of exploration and evaluation costs

Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geological and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.

4.4 Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing deferred tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in South Africa.

4.5 Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgments are used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions could materially affect the fair value estimates.

4.6 Compound financial instruments

The Group has entered into agreements in the form of foreign-currency-denominated convertible loans and warrants which are accounted for as compound financial instruments. The fair value of the embedded derivative liabilities (conversion option liability and warrant liability) are determined at the date of the transaction and are fair valued at each reporting date through profit or loss using generally accepted valuation techniques. Assumptions are made and judgments are used in applying valuation techniques.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.6 Compound financial instruments (continued)

Such judgments and assumptions are inherently uncertain. Changes in these assumptions could materially affect the fair value estimates.

4.7 Mineral reserve estimates

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Group's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as coal prices, foreign exchange rates and market conditions could have a material effect on the Group's reserves and resources, and as a result, could also have a material effect on the Group's financial position and results of operation.

4.8 Going concern assumption

The consolidated financial statements 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. If the going concern assumption was not appropriate for these consolidated financial statements 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. Such adjustments could be material.

4.9 Contingencies

Refer to note 30.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***5 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 in PY2014, 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 fiscal year 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 dates of the transactions;
- differences resulting from the retranslation on the opening net assets and the results for each period have been taken to 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:

	PY2014	2013
	C\$:R	C\$:R
Average rate	9.5415	8.3631
Closing rate	9.6899	8.8261

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***6 NATURE OF EXPENSES**

	10 months ended December 31, 2014	12 months ended February 28, 2014
Raw materials and consumables	46 108 148	47 174 360
Changes in inventories	150 086 649	99 798 041
Mining overheads	5 742 492	11 023 897
Mining sub-contractors	9 718 650	-
Depreciation and amortization	75 463 018	100 609 395
Repairs and maintenance	72 481 559	72 796 442
Salaries and wages	203 065 653	208 040 779
Social development expenditure	3 721 371	3 570 729
Royalty tax expense	4 662 862	5 620 405
Movement in provision for bad debts	(1 687 032)	1 804 291
Auditor's remuneration	1 282 668	3 984 021
Write-down of inventory to net realizable value	23 170 501	9 892 478
Transport costs - internal	22 388 965	29 584 870
Railage, handling and wharfage	46 728 724	129 323 339
Legal, consulting and other professional fees	17 614 447	34 249 249
Shareholder communication and listing fees	1 589 432	2 248 096
Stock-based compensation	302 734	3 316 760
Other expenses	15 536 487	29 817 802
Total	697 977 328	792 854 954
Cost of sales	637 994 418	710 985 206
General and administration expenses	59 982 910	81 869 748
Total	697 977 328	792 854 954

7 OTHER (EXPENSE)/INCOME – NET

	10 months ended December 31, 2014	12 months ended February 28, 2014
Foreign exchange (loss)/gain - net	(6 964 082)	(16 636 477)
Impairment of escrow funds	-	(19 427 033)
Impairment of goodwill, intangible assets and property, plant and equipment	(90 882 250)	(152 007 765)
Net profit on disposal of property, plant and equipment	238 843	6 558 810
Scrap sales	732 682	677 880
Insurance proceeds	3 556 563	-
Fair value adjustment on financial assets	1 793 054	3 646 065
Unrealized marked-to-market loss on securities	(96 974)	(307 945)
Fair value adjustment on conversion option and warrant liability	66 979 331	2 129 444
Other income	2 084 783	3 455 223
Total	(22 558 050)	(171 911 798)

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***7 OTHER (EXPENSE)/INCOME – NET****Impairment loss**

The impairment loss of R90,9 million relates to the impairment of development costs and mining assets of R11,2 million as a result of the Magdalena opencast operation coming to the end of its reserve in early 2015 and R79,7 million relating to the impairment of property, plant and equipment which were impaired as the carrying value of the BC Dundee Group exceeded the estimated recoverable amount. As of December 31, 2014, management identified indicators of impairment which existed at that date and determined the recoverable amount of the BC Dundee Group on a fair value less costs to sell basis. The fair value calculation was determined using pre-tax cash flow projections on constant terms, based on the BC Dundee Group's LOM.

The fair value calculation is categorised as level 3 in terms of the fair value hierarchy. A significant portion of the inputs into the model were unobservable, as defined, and were based on Company specific assumptions. The key assumptions used in the pre-tax cash flow projection are as follows: estimates of future production based on a LOM model, assuming that all production is sold and using forecast macro assumptions, such as the API 4 coal index, which are based on observable market expectations. The pre-tax discount rate was determined by calculating the Company's weighted average cost of capital which was based on peer company information and other observable market inputs.

During PY2014, an impairment loss of R152,0 million was recognized. The recoverable amount was determined based on a fair value less costs to sell basis. The fair value calculation was determined using pre-tax cash flow projections based on the BC Dundee Group's projected LOM. There was no change in the valuation techniques from PY2014 to CY2014.

There was significant estimate and judgment used when performing the fair value calculation (note 4.2 and 4.7). The key assumptions used in the fair value less costs to sell calculations for CY 2014 and PY2014 are as follows:

	December 31, 2014	February 28, 2014
Pre-tax discount rate	12.37%	20.20%
Gross fair value	R550,5 million	R539,7 million
Costs to sell	R11,0 million	R10,7 million
Recoverable amount	R539,5 million	R529,1 million

8 FINANCE INCOME AND EXPENSE

	10 months ended December 31, 2014	12 months ended February 28, 2014
Finance income		
Cash and restricted cash	1 073 085	3 236 090
Total	1 073 085	3 236 090
Finance expense		
Interest on borrowings	(11 951 006)	(17 326 650)
Interest on the RCF loan facilities	(17 207 498)	(2 929 696)
Unwinding discount on asset retirement obligation	(501 371)	(1 501 267)
Loan accretion	(7 651 686)	(2 421 145)
Other	(113 764)	(166 265)
Total	(37 425 325)	(24 345 023)

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***9 INCOME TAX**

Income tax expense is comprised as follows:

	10 months ended December 31, 2014	12 months ended February 28, 2014
Current tax:		
Prior year over provision - South Africa	(8 094 166)	-
Deferred taxes - current year timing differences	62 699 746	19 396 655
Income tax benefit	54 605 580	19 396 655

The major items causing the Company's income tax expense to differ from the South African statutory rate of 28% (PY2014: 28%) are as follows:

	(163 046 392)	(297 461 181)
Loss before income taxes		
Expected tax benefit at statutory tax rates	45 652 990	83 289 131
<i>Adjustments resulting from:</i>		
Benefits of tax losses not recognized	(319 439)	(40 043 643)
Income not subject to tax	1 641 771	2 907 670
Permanent differences	(4 078 714)	(4 052 342)
Foreign tax rate differential	539 914	(2 537 843)
Prior year over provision	(8 094 165)	-
Other temporary differences	19 263 223	(20 166 318)
Income tax benefit	54 605 580	19 396 655

10 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Mining assets	Office equipment, fixtures and fittings	Development costs capitalized	Mineral rights	Total
Year ended December 31, 2014						
Opening net book value	6 966 158	260 921 275	3 462 410	48 296 077	255 575 004	575 220 924
Additions	244 307	143 965 742	223 061	12 421 787	-	156 854 897
Change in asset retirement obligation	-	(12 710 950)	-	-	-	(12 710 950)
Disposals	-	(3 121 686)	-	-	-	(3 121 686)
Impairment loss	-	(3 632 317)	-	(7 561 274)	(69 200 951)	(80 394 542)
Depreciation	(461 009)	(59 916 714)	(1 108 121)	(3 248 245)	(9 710 637)	(74 444 726)
Net book value at end of year	6 749 456	325 505 350	2 577 350	49 908 345	176 663 416	561 403 917
Year ended December 31, 2014						
Cost	9 444 705	704 393 499	7 417 420	58 188 044	328 943 757	1 108 387 426
Accumulated depreciation	(2 695 249)	(378 888 149)	(4 840 070)	(8 279 699)	(152 280 342)	(546 983 510)
Net book value at end of year	6 749 456	325 505 350	2 577 350	49 908 345	176 663 415	561 403 916

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***10 PROPERTY, PLANT AND EQUIPMENT (continued)**

	Land and buildings	Mining assets	Office equipment, fixtures and fittings	Development costs capitalized	Mineral rights	Total
Year ended February 28, 2014						
Opening net book value	7 819 422	294 507 831	3 471 782	51 725 280	258 503 238	616 027 553
Additions	128 591	44 733 241	256 101	3 560 183	12 000 000	60 678 116
Change in asset retirement obligation	-	860 072	-	-	-	860 072
Disposals	-	(414 935)	(218 127)	-	-	(633 062)
Foreign currency translation adjustment	(334 284)	2 502 434	1 196 407	(4 314 700)	(1 401 247)	(2 351 390)
Depreciation	(647 571)	(81 267 368)	(1 243 753)	(2 674 686)	(13 526 988)	(99 360 366)
Net book value at end of year	6 966 158	260 921 275	3 462 410	48 296 077	255 575 003	575 220 923
Year ended February 28, 2014						
Cost	9 200 397	597 221 396	7 194 357	53 969 851	328 934 000	996 520 001
Accumulated depreciation	(2 234 239)	(336 300 121)	(3 731 947)	(5 673 774)	(73 358 997)	(421 299 078)
Net book value at end of year	6 966 158	260 921 275	3 462 410	48 296 077	255 575 003	575 220 923

Office equipment includes items to the value of R0,3 million (PY2014: R0,4 million) that are not directly used in production and operations and relate to property, plant and equipment in the Company's branch in South Africa. All property, plant and equipment is located in South Africa. Depreciation expense of R74,4 million (PY2014: R99,4 million) was recognized in 'cost of sales'.

The impairment loss of R80,4 million relates to the impairment of development costs and mining assets of R11,2 million as a result of the Magdalena opencast operation coming to the end of its reserve in early 2015 and R69,2 million as a result of the impairment review performed by management (note 7).

11 INTANGIBLE ASSETS

	Goodwill	RBCT entitlements	Total
Year ended December 31, 2014			
Opening net book value	-	11 506 000	11 506 000
Impairment loss	-	(10 487 708)	(10 487 708)
Amortization	-	(1 018 292)	(1 018 292)
Net book value at end of year	-	-	-
At December 31, 2014			
Cost	132 331 776	35 321 000	167 652 776
Accumulated amortization and impairment loss	(132 331 776)	(35 321 000)	(167 652 776)
Net book value at end of year	-	-	-

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***11 INTANGIBLE ASSETS (continued)**

	Goodwill	RBCT entitlements	Total
Year ended February 28, 2014			
Opening net book value	134 508 493	32 803 013	167 311 506
Impairment loss	(132 331 780)	(19 675 985)	(152 007 765)
Amortization	-	(1 249 029)	(1 249 029)
Foreign currency translation adjustment	(2 176 713)	(371 999)	(2 548 712)
Net book value at end of year	-	11 506 000	11 506 000
At February 28, 2014			
Cost	132 331 776	35 321 000	167 652 776
Accumulated amortization and impairment loss	(132 331 776)	(23 815 000)	(156 146 776)
Net book value at end of year	-	11 506 000	11 506 000

All intangible assets originate from South Africa. Amortization expense of R1,0 million (PY2014: R1,2 million) was recognized in 'cost of sales'.

The impairment loss of R10,5 million (PY2014: R19,7 million) was recognized as a result of management's impairment review as of December 31, 2014 and February 28, 2014 (note 7).

12 INVESTMENT IN FINANCIAL ASSETS

	December 31, 2014	February 28, 2014
Long-term investments	28 967 044	23 327 194
Security investments	167 138	259 554
Total	29 134 182	23 586 748

The movement in the investment in financial assets is as follows:

Opening balance	23 586 748	39 936 514
Current year contributions	3 846 794	7 843 936
Fair value adjustment	1 793 054	3 646 065
Unrealized marked-to-market loss on securities	(96 974)	(307 945)
Policies matured	-	(27 120 504)
Effect of foreign currency exchange difference	4 560	35 569
Currency translation adjustments	-	(446 887)
Closing balance	29 134 182	23 586 748

The investment in financial assets consists of long-term investments, held by the Group to fund payment requirements associated with its rehabilitation obligations, and security investments. The long-term investments are held by the Trust which was formed with the sole purpose of applying its property for the rehabilitation of land in order to discharge the statutory obligations of Zinoju. The security investments may only be used by Zinoju to carry out the statutory obligations as and when so required. Changes in the fair values of the investments are recorded in 'other (expense)/income -net' within profit or loss.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***13 DEFERRED TAX**

South Africa	December 31, 2014	February 28, 2014
<i>Deferred income tax liabilities:</i>		
At beginning of year	(78 338 597)	(86 958 524)
Current year timing differences	33 601 258	(6 792 495)
Effect of foreign currency exchange difference	-	19 235 131
Foreign currency translation adjustment	-	(3 822 709)
At end of year	(44 737 339)	(78 338 597)
<i>Deferred tax asset:</i>		
At beginning of year	31 134 346	3 778 533
Current year timing differences	29 098 581	27 398 667
Foreign currency translation adjustment	-	(42 854)
At end of year	60 232 927	31 134 346
Deferred tax asset/(liability) - net	15 495 588	(47 204 251)

The above balance is comprised of the following:

Provisions	8 478 229	9 524 019
Deferred revenue	-	8 360 531
Tax losses	77 490 022	33 448 946
Property, plant and equipment and other long-term assets	(70 159 975)	(97 681 177)
Other	(312 688)	(856 570)
At end of year	15 495 588	(47 204 251)

Canada	December 31, 2014	February 28, 2014
<i>Deferred income tax liabilities:</i>		
At beginning of year	-	-
Current year timing differences	(9 458 273)	-
At end of year	(9 458 273)	-
<i>Deferred tax asset:</i>		
At beginning of year	-	-
Current year timing differences	9 458 273	-
At end of year	9 458 273	-
Deferred tax asset/(liability) - net	-	-

The above balance is comprised of the following:

Canada	December 31, 2014	February 28, 2014
Tax losses	9 458 273	-
Other	(9 458 273)	-
At end of year	-	-

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***13 DEFERRED TAX (continued)**

No tax benefit has been recognized for the following temporary differences:

Canada	December 31, 2014	February 28, 2014
Tax losses (expiring between 2027 and 2034)	143 970 672	172 433 494
Other	35 874 684	50 307 055
Total	179 845 356	222 740 549
Total C\$	18 013 898	22 987 732

As at December 31, 2014, the Company had an unrecognized deferred tax asset of approximately R135,0 million (PY2014: R44,0 million) relating to investments in subsidiaries that has not been recognized because the Company controls the timing of the reversal of the temporary differences and it is probable that these differences will not reverse in the foreseeable future.

14 TRADE AND OTHER RECEIVABLES

	December 31, 2014	February 28, 2014
Non-current other receivables:		
- Deposits	14 238 959	3 907 685
Total non-current other receivables	14 238 959	3 907 685
Current trade and other receivables:		
- Trade receivables	79 522 493	64 765 014
Less: Provision for impairment of receivables	(969 478)	(2 655 629)
- Trade receivables - net	78 553 015	62 109 385
- Value-Added Tax (VAT)	13 703 448	9 683 398
- Prepayments	2 641 470	4 957 944
- Harmonized Sales Tax (HST)	107 263	618 013
- Other receivables	469 763	228 338
Total current trade and other receivables	95 474 959	77 597 078

The fair values of trade and other receivables approximate their carrying values. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security. There is no significant concentration of credit risk in respect of any particular customer.

Included in the non-current deposits as of December 31, 2014 are deposits for equipment which will be funded by RCF (note 22).

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***14 TRADE AND OTHER RECEIVABLES (continued)**

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	December 31, 2014	February 28, 2014
CAD	557 393	3 173 258
USD	6 396 228	-
Rands	88 521 338	74 423 820
Total	95 474 959	77 597 078

Movements on the Group's provision for impairment of receivables are as follows:

	December 31, 2014	February 28, 2014
Opening balance	2 655 629	862 884
Provision (released)/raised	(1 686 151)	1 776 372
Foreign currency translation adjustment	-	16 373
Closing balance	969 478	2 655 629

The creation and release of the provision for impairment of trade receivables has been included in profit or loss. The other classes within trade receivables do not contain impaired assets.

15 INVENTORIES

	December 31, 2014	February 28, 2014
Consumables	2 293 150	2 855 421
Work in progress	3 262 337	5 688 520
Finished goods	21 479 480	64 832 294
Total	27 034 967	73 376 235

A portion of finished goods inventory was written down to net realizable value during the current financial year. A write-down of R23,2 million (PY2014: R9,9 million) was recognized in 'cost of sales' within profit or loss. Depreciation of R1,0 million (PY2014: R2,7 million) is included within inventory at December 31, 2014. The amount of inventories recognized as an expense during CY2014 is R552,9 million (PY2014: R510,0 million).

16 INTEREST AND NON-INTEREST BEARING RECEIVABLES

	December 31, 2014	February 28, 2014
Interest bearing receivables:		
Deposit with respect to cancelled transaction (note 28)	-	29 140 388
Non-interest bearing receivables:		
Other receivables	1 587 765	1 504 434

The non-interest bearing receivables are unsecured, interest free and have no fixed terms of repayment.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***17 RESTRICTED CASH**

Restricted cash comprises of deposits of R3,2 million (PY2014: R3,2 million) with FNB in respect of guarantees provided to the Department of Mineral Resources (“DMR”) and Eskom, R8,0 million (PY2014: R8,0 million) deposit with FNB for guarantees to Transnet Freight Rail (“TFR”) and RNil (PY2014: R6,2 million) related to amounts ceded to RCF as security for the original convertible and bridge loan facilities (note 22).

In the prior financial year, as security for the original convertible and bridge loan facilities provided by RCF to the Company (note 22), BC Dundee ceded all rights, titles and interest in the anthracite stockpile at July 31, 2013 as well as a bank account into which the proceeds from the sale of such anthracite stock pile were deposited. Effective July 3, 2014 and in terms of the amended and restated loan agreement with RCF (“Amended RCF Agreement”), the Company was released from this security (note 22).

18 CASH AND CASH EQUIVALENTS

	December 31, 2014	February 28, 2014
Cash in bank	12 120 081	14 582 999
Cash is denominated in the following currencies:		
CAD	306 868	4 332 085
USD	2 195 326	1 042 750
ZAR	9 617 887	9 208 164
Total	12 120 081	14 582 999

19 SHARE CAPITAL

	Number of shares	Stated value
Opening balance at March 1, 2013	34 386 035	859 151 468
Shares issued in relation to RCF convertible loan	3 041 047	5 607 185
Other comprehensive gain for the year due to change in presentation currency	-	84 057 799
Balance at February 28, 2014	37 427 082	948 816 452
Shares issued in relation to RCF convertible loan	20 119 629	24 014 735
Cancellation of shares in escrow	(1 350 000)	(34 864 745)
Balance at December 31, 2014	56 196 711	937 966 442

The Company is authorized to issue an unlimited number of common shares of the Company (“Common Shares”) at no par value.

On July 3, 2014, BC Corp closed the final tranche of the US\$25,0 million convertible loan facility with RCF (note 22). RCF received a 5% establishment fee payable in cash or Common Shares. The Company issued 5 531 120 Common Shares at a price of C\$0.1446 per share to settle the establishment fee.

The Company issued 9 264 060 Common Shares to RCF to settle the interest owing as per the Amended RCF Agreement for the period between July 3, 2014 and December 31, 2014. The Common Shares were issued at prices per share ranging between C\$0.0982 and C\$0.1308, being the 20-day volume weighted average prices (“VWAP”) as at the dates the payments were due.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***19 SHARE CAPITAL (continued)**

Prior to the closing of the final tranche of the Amended RCF Agreement, the Company issued Common Shares to RCF in terms of the original convertible loan facility of US\$6,0 million (“RCF Original Convertible Loan”) and the bridge loan facility of US\$4,0 million (“RCF Bridge Loan”). For the period between March 1, 2014 and June 30, 2014 the Company issued 5 324 449 shares at prices per share ranging between C\$0.0787 to C\$0.1247, being the 20-day VWAP as at the dates the payments were due.

In PY2014, the Company issued 517 450 Common Shares to RCF at a price of C\$0.36 per share to settle the 3% establishment fee on the RCF Original Convertible Loan and 1 537 897 Common Shares at a price of C\$0.1446 per share to settle the 5% establishment fee on the RCF Bridge Loan. Additionally, interest on the RCF Original Convertible Loan for the periods ended September 30, 2013 and December 31, 2013 was settled in Common Shares. The Company issued 985 700 Common Shares at prices per share ranging between \$0.1560 and \$0.2371, being the 20-day VWAP as at the dates the payments were due.

20 RESERVES

	Number of options	Weighted average exercise price (C\$)	Value of options
Opening balance at March 1, 2013	2 730 000	3.18	54 211 275
Granted and vested	2 347 500	0.29	3 316 760
Expired/cancelled	(1 855 000)	-	(38 682 761)
Foreign currency translation adjustment	-	-	1 953 080
Balance at February 28, 2014	3 222 500	0.94	20 798 354
Granted and vested	375 000	0.11	302 734
Expired/cancelled	(1 090 250)	-	(10 574 992)
Closing balance at December 31, 2014	2 507 250	0.70	10 526 096

Employee share options plan

The Company has an ownership-based compensation scheme, administered by the Board of Directors of the Company, for directors, officers, employees and consultants. The plan provides for the issuance of share options to acquire up to 10% of the Company's issued and outstanding capital. The number of shares reserved for issuance pursuant to the grant of share options will increase as the Company's issued and outstanding share capital increases. In accordance with the terms of the plan, as approved by shareholders at a previous annual general meeting, directors; officers; employees and consultants of the Company may be granted options to purchase Common Shares at an exercise price determined by the Board of Directors, but which shall not be lower than the market price of the underlying Common Shares at the time of grant. Each employee share option converts into one Common Share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

On August 12, 2014, 375 000 (PY2014: 2 347 500) share options were granted to directors of the Company vesting immediately. On September 29, 2014, the vesting terms of the options granted were modified whereby the options, of each eligible director, would vest over a two-year period, with a portion vesting immediately, and the balance vesting equally on August 12, 2015 and 2016.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***20 RESERVES (continued)**

In terms of IFRS 2, *Share-based payments*, as the modification was not considered “beneficial to the employee”, the accounting treatment for the full value of the grant at date of grant remained, as if the modification had not occurred. The fair value of these stock options was estimated to be R0,3 million (PY2014: R3,3 million) using the Black-Scholes option pricing model. Refer below for the assumptions used in the valuation model.

An amount of R0,3 million (PY2014: R1,7 million) is included in profit or loss as stock-based compensation expense related to the fair value of the portion of options vested during the period for directors, officers and consultants engaged at the corporate level. An amount of RNil (PY2014: R1,6 million) is included in profit or loss as stock-based compensation within cost of sales and is related to the fair value of the portion of options vested during the period for officers, employees and consultants engaged at the site level. The options expire five years from the date of issue, or 30 days after the resignation of the director, officer, employee or consultant.

Share options outstanding at the end of the financial year have the following exercise prices:

Grant date	Exercise price (C\$)	December 31, 2014	February 28, 2014
15 March 2010	2.80	50 000	190 000
13 October 2010	3.25	-	25 000
24 March 2011	4.10	75 000	120 000
06 June 2011	3.00	-	100 000
13 June 2011	2.77	150 000	150 000
25 January 2012	1.80	200 000	300 000
13 August 2013	0.29	1 657 250	2 337 500
12 August 2014	0.11	375 000	-
Total		2 507 250	3 222 500

The weighted average remaining contractual life on share options outstanding at December 31, 2014 is 2.92 years (PY2014: 2.75 years). Out of the 2 507 250 (PY2014: 3 222 500) outstanding, 2 257 251 (PY2014: 3 222 500) were exercisable. Certain of the options granted and outstanding above expired in the current financial year as part of the settlement agreement entered into with consultants with regards to the closure of the Company’s Toronto office, (note 29). Subsequent to December 31, 2014, 433 500 options expired unexercised.

The salient details of options granted during the current and prior financial years are provided in the table below:

Valuation details	12 August 2014	13 August 2013
Grant date	12 August 2014	13 August 2013
Fair value (R)	302 734	3 316 760
Option strike price (C\$)	0.11	0.29
Share price on grant date (C\$)	0.11	0.29
Expiry date	12 August 2019	13 August 2018
Remaining contractual life at year-end	4.62	3.62
<i>Valuation assumptions:</i>		
Expected volatility (%)	102	65
Expected life of grant	5	5
Annual risk-free interest rate (%)	1.66	1.88
Expected dividend yield (%)	0	0

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***20 RESERVES (continued)****Restricted Share Units**

The Company approved the adoption of a Restricted Share Unit (“RSU”) Incentive Plan. Upon adoption of the new plan, the Company is authorized to grant and issue RSUs to directors and officers of the Company. Each RSU shall entitle the director or officer to receive one Common Share upon completion of certain terms. The Common Shares will be repurchased from the open market and held in trust for subsequent issuance. As of December 31, 2014, R1,0 million (PY2014: R1,0 million) worth of RSUs were granted but not issued under the plan (note 29).

Black Economic Empowerment option

During the year ended February 29, 2012, BC Dundee assisted one of its BEE partners in buying out the interest in Zinoju held by its other BEE partner. This resulted in the issuance of a new call option to the continuing BEE partner which represented the issuance of an equity-settled share-based payment. The value of the new call option on the date of issue of R9,1 million was reflected as an expense in profit or loss in fiscal 2012 as part of ‘Loss on share-based payments’ and as a credit in the statement of changes in equity in the ‘share-based payment reserves’.

21 BORROWINGS

Borrowings consist of the following:

	December 31, 2014	February 28, 2014
Instalment sale agreements	-	808 890
Investec loan facility	138 047 902	155 997 480
Total	138 047 902	156 806 370
Current portion	(6 000 000)	(65 578 297)
Long-term portion	132 047 902	91 228 073

	December 31, 2014	February 28, 2014
(a) Instalment sale agreements		
Total amount outstanding	-	808 890
Less: current portion transferred to current liabilities	-	(808 890)
Long-term portion of instalment sale agreements	-	-

The instalment sale agreements were payable at interest rates linked to prime with a maturity date of April 2014.

(b) Investec loan facility		
Total amount outstanding	138 047 902	155 997 481
Less: Current portion transferred to current liabilities	(6 000 000)	(64 769 408)
Long-term portion of Investec loan facility	132 047 902	91 228 073

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***21 BORROWINGS (continued)**

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 principal payment is due in December 2015 and thereafter, including interest, on a quarterly basis. The amended and restated agreement with Investec ("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.

As of December 31, 2014, R162,2 million (PY2014: R156,0 million) had been drawn pursuant to the loan facilities. The Group was fully drawn on the term loan, bullet and revolving credit facility for the financial year ended December 31, 2014. For the financial year ended February 28, 2014, the Group was fully drawn on the term loan facility and had R10,0 million available for drawdown on the revolving credit facility.

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.

During the prior financial year, the Investec loan consisted of two facilities, a revolving loan facility of up to R30,0 million, and a term loan facility of R200,0 million. The revolving loan facility bore interest at prime plus 0.5%, payable monthly. The term loan facility bore interest at JIBAR plus 4%, repayable in quarterly principal payments of R10,5 million plus interest with a payment holiday for the quarter ended February 28, 2014.

The movement in the Investec borrowings is as follows:

	December 31, 2014
Opening balance	155 997 480
Interest accrued	1 124 453
Net repayment of working capital facility	5 251 023
Balance after restructuring of investec facility	162 372 956
Warrants issued	(22 987 796)
Accretion of warrant asset	1 101 202
Restructuring fee capitalized to loan facility	2 280 000
Restructuring costs	(2 733 605)
Accretion expense	246 721
Interest accrued	2 148 750
Net drawdown from working capital facility	5 786 048
Repayments	(10 166 374)
Closing balance	138 047 902

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***21 BORROWINGS (continued)**

The restructured Investec facility is repayable as follows:

	December 31, 2014
12 months	6 000 000
13-24 months	24 000 000
25-36 months	24 000 000
37-48 months	24 000 000
49-60 months	24 000 000
Greater than 60 months	60 228 930
Total	162 228 930

In connection with the July 3, 2014 restructuring, Investec 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 until 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. 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%, 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 December 31, 2014 was obtained using the Black-Scholes option pricing model and the following assumptions: expected volatility of 61.8%, life of 4.5 years, risk-free interest rate of 1.3% and an expected dividend yield of 0%.

The movement in the warrant liability is as follows:

	December 31, 2014
Warrant option liability	22 987 796
Fair value adjustment	(13 962 287)
Foreign exchange differences	(206 975)
Closing balance	8 818 534

The loan from Investec is secured as follows:

Cession in securitatem debiti agreement entered into between BC Corp and Investec in respect of BC Corp's rights, title, claims and interests in and to the relevant assets which include: all the shares, securities and other ownership interests in BC Dundee and BC together with all its debt claims against BC Dundee, BC and Zinoju; and BC Corp's bank accounts held in South Africa together with all rights to cash balances standing to the credit of those bank accounts.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

21 BORROWINGS (continued)

Cession in securitatem debiti agreement entered into between BC Dundee and Investec in respect of BC Dundee's rights, title, claims and interests in and to the relevant assets which include: all insurances and all the proceeds receivable under those insurances; trade receivables; claims of BC Dundee under the mining contract with Zinoju; BC Dundee's share in and claims against Zinoju and all the bank accounts of BC Dundee and all rights to cash balances standing to the credit of those bank accounts.

A first-ranking covering mortgage bond over each of the immovable properties (land and buildings) of which BC Dundee is the registered owner. A first-ranking special notarial bond over specified movable property of BC Dundee and a second ranking special notarial bond over the assets purchased using the funds received from RCF (note 22). A first and second ranking general notarial bond over all of BC Dundee's movable assets.

22 RCF LOAN FACILITIES**RCF Original Convertible Loan**

On September 4, 2013, the Company closed the secured US\$6,0 million (approximately R61,0 million) RCF Original Convertible Loan. The RCF Original Convertible Loan had an original maturity date of June 30, 2016. The principal on the RCF Original Convertible Loan was convertible into Common Shares at a price of C\$0.36 per share.

The issuance of Common Shares to RCF upon conversion of the loan, interest payments and for the establishment fee was subject to shareholder approval which was received at the annual and special meeting that was held on September 11, 2013. As a result, RCF received a 3% establishment fee payable in cash or Common Shares. Following shareholder approval, 517 450 Common Shares at a price of C\$0.36 per share were issued to satisfy the establishment fee (note 19).

Prior to receipt of shareholder approval, the loan bore interest at a rate of 10% per annum, payable on each calendar quarter in cash or Common Shares at a price per share equal to the 20-day VWAP as at the date the payment was due. Upon receipt of shareholder approval on September 11, 2013, the interest rate decreased to 8% per annum.

The RCF Original Convertible Loan was secured by a cession of the shares of BC Dundee, a special notarial bond over the anthracite stockpile as at July 31, 2013 and a cession of a specified bank account into which all proceeds from the sale of such anthracite stockpile were transferred.

In addition, BC Dundee provided a guarantee to RCF guaranteeing the payment and performance of all liabilities and obligations of the Company to RCF under the RCF Original Convertible Loan. The guarantee was limited to restrictions imposed by the South African Reserve Bank, if any.

RCF Bridge Loan

On February 4, 2014, the Company entered into an agreement with RCF for a secured US\$25,0 million convertible loan facility ("RCF US\$25 million Facility") which comprised the RCF Bridge Loan, a convertible loan of up to US\$15,0 million and a refinancing of the RCF Original Convertible Loan.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

22 RCF LOAN FACILITIES (continued)**RCF Bridge Loan (continued)**

On February 5, 2014, the Company closed the secured US\$4,0 million (approximately R42,9 million) RCF Bridge Loan, being the first tranche of the RCF US\$25 million Facility. The RCF Bridge Loan bore interest at 15% per annum, payable in arrears at the end of each month, in cash or Common Shares at a price per share equal to the 20-day VWAP as at the date the payment was due. The RCF Bridge Loan would roll up into the US\$25 million Facility upon shareholder approval with the same terms and conditions as the RCF US\$25 million Facility.

The Company made an application to the TSX to rely on an exemption from the requirement to obtain shareholder approval as requested in respect of the terms of the RCF Bridge Loan on the basis of financial hardship, which was granted by the TSX.

As a result of the RCF Bridge Loan, RCF received a 5% establishment fee which was issued in Common Shares at a price of C\$0.1446 per share (note 19).

The RCF Bridge Loan was secured by the security provided by the Company for the RCF Original Convertible Loan (other than the special notarial bond over the anthracite stock pile).

RCF Convertible Loan

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 RCF US\$25 million Facility of US\$15,0 million. Furthermore, the RCF Bridge Loan, the RCF Original 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 and matures on June 30, 2019.

There are two types of advances per the Amended RCF Agreement in respect of the advance of the third tranche of US\$15,0 million:

- 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.

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 RCF Bridge Loan and RCF Original Convertible Loan facilities.

As of December 31, 2014, the Company had drawn US\$22,8 million (R265,0 million) (PY2014: US\$10,0 million (R64,4 million)) pursuant to the terms of the RCF Convertible Loan. As of December 31, 2014, the Group had US\$2,2 million (approximately R22,0 million) available for drawdown from the RCF US\$25 million Facility, which was drawn in full subsequent to December 31, 2014.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***22 RCF LOAN FACILITIES (continued)****RCF Convertible Loan (continued)**

The movement in the RCF Convertible Loan facility is as follows:

	December 31, 2014	February 28, 2014
Opening balance	91 610 592	-
Adjustment due to modification of debt	8 554 152	-
Loan proceeds	139 637 969	103 945 495
Conversion option liability	(107 724 257)	(10 878 308)
Loan issue costs	(14 788 621)	(6 636 345)
Accretion expense	6 303 763	2 421 145
Effect of foreign currency exchange difference	8 948 655	2 758 604
Total loan	132 542 252	91 610 592
Current portion of RCF loan facilities	-	(40 723 113)
Long-term portion of RCF loan facilities	132 542 252	50 887 479

On July 4, 2014, the Company received the first scheduled advance of US\$4,4 million (approximately R47,0 million) from RCF of which R24,3 million was deposited into the Investec revolving credit facility and R9,8 million was paid into the Bullet Facility, as per the Amended Investec Agreement (note 21). An additional US\$0,8 million (approximately R8,6 million) was received during the financial year from RCF as a scheduled advance.

During the financial year ended December 31, 2014, a total of US\$7,6 million (approximately R83,9 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.

Due to the two incidents at the mines in September 2014, RCF agreed that the remaining funds under the facility be used to purchase the remaining assets as per the Amended RCF agreement and for working capital purposes.

The Company issued 5 531 120 Common Shares to RCF at a price of C\$0.1446 per Common Share, to settle the 5% establishment fee on the final tranche of the facility (note 19).

Conversion option liability

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, the conversion feature being exercisable in Canadian Dollars and the functional currency being Rands. The component liability will be accreted to its face value of US\$22,8 million (approximately R265,0 million) using the effective interest rate method at approximately 34.2%. The movement in the conversion option liability is as follows:

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***22 RCF LOAN FACILITIES (continued)****Conversion option liability (continued)**

	December 31, 2014	February 28, 2014
Opening balance	7 828 422	-
Reversal of option liability due to modification of debt	(7 828 422)	-
Conversion option liability	107 724 257	10 878 308
Loan issue costs relating to conversion option	-	(959 445)
Fair value adjustment	(53 536 779)	(2 129 444)
Foreign currency translation adjustment	(98 923)	39 003
Closing balance	54 088 555	7 828 422

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 60% and 107%, life of between 4.6-5.0 years, risk-free interest rate of 1.3%-1.5% and expected dividend yield of 0%.

The fair value of the conversion option liability at December 31, 2014 was obtained using the Black-Scholes option pricing model and the following assumptions: expected volatility of 69%, life of 4.5 years, risk-free interest rate of 1.3% and expected dividend yield of 0%.

Security

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.

23 ASSET RETIREMENT OBLIGATION

	December 31, 2014	February 28, 2014
Opening balance	34 593 321	32 601 706
Change in estimate	(13 170 925)	2 361 339
- Included in property, plant and equipment	(12 710 950)	860 072
- Reversal of provision	(961 346)	-
- Unwinding of discount	501 371	1 501 267
Foreign currency translation adjustment	-	(369 724)
Closing balance	21 422 396	34 593 321
Current portion	(2 664 209)	(2 664 209)
Non-current portion	18 758 187	31 929 112

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***23 ASSET RETIREMENT OBLIGATION (continued)**

South African mining companies are required by law to undertake rehabilitation works as part of their ongoing operations. These environmental rehabilitation costs are funded by contributions into long-term investments held in the Trust (note 12). A provision is recognized based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred at the statement of financial position date and is expected to be paid out within 20-25 years. The expected timing of the cash outflows, in respect of the provision, is on the closure of the various mining operations. However, certain current rehabilitation costs are charged to this provision as and when incurred.

The provision is calculated using the following rates:

	December 31, 2014	February 28, 2014
Discount rate (%)	8.50	6.05
Inflation rate (%)	5.60	5.60

24 TRADE AND OTHER PAYABLES

	December 31, 2014	February 28, 2014
Trade payables	75 323 420	93 239 580
Audit fees	779 325	3 866 648
Receiver of Revenue - VAT	2 088 786	2 868 734
Income received in advance	-	502 625
Deferred revenue	16 876 846	29 859 039
Sundry payables and accruals	42 643 349	25 603 737
Short-term instalment sale agreement	18 643 930	-
Leave pay provision	14 151 229	14 221 043
Total	170 506 885	170 161 406

The fair value of trade and other payables approximates their carrying amount, as the impact of discounting is not considered significant.

During the current financial year, the Company entered into a twelve month instalment sale agreement with a supplier for the purchase of a continuous miner. A deposit of R3,4 million was paid in July 2014 with a further R14,5 million paid in December 2014 (using funds received from RCF), and equal monthly instalments of R1,8 million payable for the next twelve months, beginning December 2014. Interest will be charged at the South African prime rate plus 2.25%.

On December 22, 2014, the Company announced a restructuring of the BC Dundee operations in order to improve operating efficiencies and return to profitability, thereby ensuring that the Company remains sustainable into the future. In terms of the proposed restructuring, a consultation process commenced in January 2015 in South Africa with organized labour and relevant stakeholders, as required in terms of section 189A of the South African Labour Relations Act ("LRA"). Included in sundry payables and accruals as of December 31, 2014 is the Company's provision of R8,4 million (R13,7 million including leave pay) which is the Company's best estimate of the labour retrenchment costs. The provision was based on the anticipated number of staff to be retrenched and an estimated redundancy compensation package in terms of South African law. The provision is expected to be fully utilized in the first half of 2015.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***24 TRADE AND OTHER PAYABLES (continued)**

In a prior financial year, Zinoju entered into a contract with a customer which expired on December 31, 2013, with an outstanding liability to the customer of US\$2,8 million (approximately R31,1 million), as a result of an invoicing mismatch. A new contract was entered into with the customer on February 1, 2014, the terms of which allowed for the settlement of the outstanding liability. However, the contract included a clause that in the event of default, the customer is entitled to payment of the liability reduced in proportion over the period of the contract. The liability was therefore reclassified as deferred revenue as, in substance, the contract is an off-take agreement with an upfront payment.

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	December 31, 2014	February 28, 2014
CAD	3 241 320	9 513 088
USD	19 669 960	42 640 366
ZAR	147 569 877	117 982 303
GBP	25 728	25 649
Total	170 506 885	170 161 406

25 SHARES IN ESCROW

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

- 50% of the Escrowed Shares (the "First Tranche Escrowed Shares") to be released once the Company achieved US\$22,0 million in EBITDA from the BC Dundee Properties over a twelve consecutive month period by July 20, 2013;
- The remaining Escrowed Shares would be released if the Company achieved US\$35,0 million in EBITDA from the BC Dundee Properties over a twelve consecutive month period within a three year period following the release of the First Tranche Escrowed Shares. For further clarity, EBITDA generated from the BC Dundee Properties excluded any gains or losses generated by the combined company from the disposal of the BC Dundee Properties.
- In the event of not achieving the above EBITDA targets from the BC Dundee Properties, the Escrowed Shares would be cancelled.

During the year ended February 29, 2012, the US\$22,0 million in EBITDA from the BC Dundee Properties was achieved and the first tranche Escrowed Shares were released. On November 4, 2014, the remaining Escrowed Shares (1 350 000 shares) were cancelled, as BC Dundee had not achieved the target EBITDA of US\$35,0 million.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***26 FINANCIAL INSTRUMENTS BY CATEGORY**

The Company's financial assets and financial liabilities as at December 31, 2014 and February 28, 2014 were as follows:

Financial instruments	Loans and receivables	Fair value through profit or loss	Liabilities at fair value through profit or loss	Other liabilities at amortized cost	Total
December 31, 2014					
Trade and other receivables (excluding non-financial assets)	78 553 015	-	-	-	78 553 015
Investments in financial assets	-	29 134 182	-	-	29 134 182
Cash (excluding restricted cash)	12 120 081	-	-	-	12 120 081
Non-interest bearing receivables	1 587 765	-	-	-	1 587 765
Investec borrowings	-	-	(8 818 534)	(138 047 902)	(146 866 436)
RCF loan facilities	-	-	(54 088 555)	(132 542 252)	(186 630 808)
Trade and other payables (excluding non-financial liabilities)	-	-	-	(151 541 252)	(151 541 252)

Financial instruments	Loans and receivables	Fair value through profit or loss	Liabilities at fair value through profit or loss	At amortized cost	Total
February 28, 2014					
Trade and other receivables (excluding non-financial assets)	62 109 385	-	-	-	62 109 385
Investments in financial assets	-	23 586 748	-	-	23 586 748
Cash (excluding restricted cash)	14 582 999	-	-	-	14 582 999
Interest bearing receivables	29 140 388	-	-	-	29 140 388
Non-interest bearing receivables	1 504 434	-	-	-	1 504 434
Investec borrowings	-	-	-	(155 997 480)	(155 997 480)
RCF loan facilities	-	-	(7 828 422)	(91 610 592)	(99 439 014)
Trade and other payables (excluding non-financial liabilities)	-	-	-	(122 709 966)	(122 709 966)

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***27 CASH GENERATED FROM OPERATIONS**

	December 31, 2014	February 28, 2014
Loss before income tax	(163 046 392)	(297 461 181)
Adjusted for:		
Depreciation and amortization	75 463 018	100 609 395
Impairment of escrow funds	-	19 427 033
Impairment of property, plant and equipment and goodwill and other intangible assets	90 882 250	152 007 765
Unrealized foreign exchange loss/(gain)-net	6 962 451	16 636 477
Impairment of trade receivables	(1 687 032)	1 804 291
Net profit on disposal of property, plant and equipment	(238 843)	(6 558 810)
Fair value adjustment on investments in financial assets	(1 696 080)	(3 338 120)
Fair value adjustment on conversion option and warrant liability	(66 979 331)	(2 129 444)
Write-down of inventory to net realizable value	23 170 501	9 892 478
Reversal of asset retirement obligation provision	(961 346)	-
Stock-based compensation	302 734	3 316 760
Finance income - cash	(1 073 085)	(1 084 015)
Finance income - non-cash	-	(2 152 075)
Finance cost – cash	8 787 101	18 413 418
Finance cost – non-cash	28 638 224	5 931 605
Net changes in working capital:	(14 142 056)	(9 961 439)
Cash (utilized in)/generated from operations	(15 617 886)	5 354 138

28 TRANSACTION WITH RIVERSDALE MINING LIMITED**Proposed acquisition of Riversdale Holdings Proprietary Limited**

In September 2012, the Company and Rio Tinto PLC (“Rio Tinto”) announced that they had entered into a definitive agreement whereby BC Corp was expected to acquire 100% ownership of the shares and shareholder claims of Riversdale Mining Limited (“RML”) in Riversdale Holdings Proprietary Limited (“RHPL”) (“the Riversdale Acquisition”), as a result of which, the Company would have acquired RHPL’s 74% interest in the Zululand Anthracite Colliery (“ZAC”), a current producing anthracite mine, and RHPL’s 74% interest in the Riversdale Anthracite Colliery (“RAC”), an undeveloped anthracite resource. A deposit, totaling R45,5 million was paid into an escrow account to be applied against the purchase consideration for the Riversdale Acquisition (“the Escrow Funds”). See below under “Loan facility” regarding the funding and guarantees provided for the Riversdale Acquisition.

Cancellation of transaction

In February 2013, the Company notified RML of the cancellation of the Riversdale Acquisition, as a result of a material deterioration in the performance of ZAC, which, in the opinion of the Company, constituted a breach of certain provisions of the agreement. Following the cancellation of the Riversdale Acquisition, two disputes were declared with the Company seeking the return of the Escrow Funds and RML seeking damages in the amount of R299,5 million resulting from the cancellation of the Riversdale Acquisition.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

*(Presented in South African Rands)***28 TRANSACTION WITH RIVERSDALE MINING LIMITED (continued)****Loan facility**

Investec agreed to underwrite the funding for the Riversdale Acquisition, by way of the provision of guarantees of R394,5 million to RML, and ultimately by providing debt funding for the same amount, for the payment of the purchase consideration. The debt was structured as a loan facility to BC Dundee which was then advanced to BC, which would then purchase the shares and claims in RHPL.

The guarantee expired in May 2013. At December 31, 2014 and February 28, 2014, no liability existed to Investec in respect of the transaction guarantees, other than in respect of a front-end fee of 4% of the guarantee facility amount. The fee of R18,0 million was paid in May 2013.

Settlement

In March 2014, the Company reached a settlement agreement with RML in respect of the disputes between the parties. The claim by the Company against RML for the return of the Escrow Funds, and the claim by RML against the Company for damages in the amount of R299,5 million were settled by way of the Escrow Funds (including interest) being shared between the parties as to R19,4 million to RML and the balance of R29,3 million to the Company.

Pursuant to the terms of the settlement agreement, neither party shall have any further claim, right, liability and/or duty of any kind towards the other party in respect of either claim.

29 RELATED PARTIES

During the period, the Company entered into the following transactions in the ordinary course of business with related parties:

	December 31, 2014	February 28, 2014
<i>Payments for services rendered</i>		
2227929 Ontario Inc. ¹	-	5 728 540
Forbes & Manhattan Inc. ²	-	2 744 704
RCF ³	2 966 708	2 394 772
Total	2 966 708	10 868 016

The following balances were outstanding at the end of the reporting period:

	December 31, 2014	February 28, 2014
<i>Related party payables</i>		
2227929 Ontario Inc. ¹	-	2 357 756
Forbes & Manhattan Inc. ²	-	58 424
RCF ³	2 758 777	2 028 774
Total	2 758 777	4 444 954

These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

29 RELATED PARTIES (continued)

¹ The Company historically shared office space in Toronto, Canada with other companies which may have had officers or directors in common with BC Corp. The costs associated with this space, certain consulting, professional and general and administration services are administered by 2227929 Ontario Inc. These common directors and officers are no longer part of the Group and 2227929 Ontario Inc is not considered to be a related party, as defined, for the financial year ended December 31, 2014.

² Mr. Stan Bharti, a former director of BC Corp, is the Executive Chairman of Forbes & Manhattan Inc. The Company previously had consulting agreements with Mr. Stan Bharti and Forbes & Manhattan Inc. which were terminated on May 1, 2013 and November 7, 2013 respectively. Forbes & Manhattan Inc. is no longer considered to be a related party, as defined, for the financial year ended December 31, 2014.

³ RCF is a related party to the Company as a result of owning more than 10% of the issued and outstanding Common Shares and having a representative, Mr. David Thomas on the Board of Directors of the Company. As set out in the Amended RCF Agreement, RCF has invoiced the Company for costs incurred relating to the facilities, which are disclosed above. In addition to these costs, the Company settled interest on the RCF Convertible Loan in Common Shares during the financial year ended December 31, 2014, which amounted to R17,2 million (PY2014: R2,9 million) (note 19).

Compensation of key management personnel

In accordance with IAS 24 - *Related-Party Disclosures*, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and other members of key management personnel (officers) during the period were as follows:

	December 31, 2014	February 28, 2014
Short-term benefits	13 007 957	13 524 250
Share-based payments	302 734	3 207 401
Total	13 310 691	16 731 651

During the current financial year, 375 000 share options were granted to directors of the Company, vesting over a two-year vesting period, a portion vesting immediately. The fair value of these share options was estimated to be R0,3 million using the Black-Scholes option pricing model.

As of December 31, 2014, C\$100 000 (R1,0 million) worth of restricted stock units ("RSUs") were granted to a director but not issued under the plan. These amounts were accrued as of December 31, 2014 and February 28, 2014. Amounts owing to directors and other members of key management personnel were R1,5 million as of December 31, 2014 as compared to R2,7 million at February 28, 2014.

30 COMMITMENTS AND CONTINGENCIES

Management Contracts

Certain management contracts require that payments of approximately R12,5 million be made upon the occurrence of a change of control, other than a change of control attributable to RCF. As no triggering event has taken place, no provision has been recognised as of December 31, 2014.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

30 COMMITMENTS AND CONTINGENCIES (continued)

Capital Commitments

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

	December 31, 2014	February 28, 2014
Property, plant and equipment	27 378 909	8 271 945

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 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")) and is no longer considered a commitment of the Group. Included in the R27,4 million disclosed as of December 31, 2014 are commitments relating to the purchase of machinery and equipment which will be funded by equipment advances from RCF.

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 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 December 31, 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 lodged its replying submission to the DMR. On September 23, 2014 the DMR informed Zinoju of the decision taken by the Minister to grant the necessary approvals which rendered the appeal against Zinoju unsuccessful.

31 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.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

31 CHANGE IN DIRECTORS AND OFFICERS (continued)

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 22) 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.

32 SUBSEQUENT EVENTS**Issuance of Share Capital**

Subsequent to December 31, 2014, the Company issued additional shares to RCF in settlement of interest owing on the RCF Convertible Loan for the periods ended December 31, 2014, January 31, 2015 and February 28, 2015. An additional 2 722 704, 3 752 803 and 3 972 281 Common Shares were issued at prices of C\$0.0962, C\$0.0812 and C\$0.0752, respectively.

Bridge Loan from RCF

On January 30, 2015, the Company signed a term sheet (the "Term Sheet") to secure an additional US\$4,0 million loan facility from RCF. Under the terms set out in the Term Sheet, the US\$4,0 million will be advanced as a bridge loan (the "2015 Bridge Loan") and, subject to receiving regulatory and shareholder approvals as required, will roll over into the RCF Convertible Loan, under the same terms and conditions except for the proposed amendments to the interest rate and conversion price on the full US\$29,0 million (the "2015 RCF Convertible Loan").

The 2015 Bridge Loan will be used for working capital and to implement the employment restructuring plan at BC Dundee (note 24). Funds from the 2015 Bridge Loan will be available upon satisfaction of the conditions precedent set out in the Term Sheet and will be drawn on an as needed basis. The 2015 Bridge Loan will bear interest at a rate of 15% per annum, payable on the maturity date which is the earlier of the date on which all approvals are received or June 30, 2015. Subject to receipt of the approvals, interest will be payable in Common Shares at a price per share equal to the 20-day VWAP as at the date the payment is due. No establishment fees will be incurred on the 2015 Bridge Loan. If the approvals are not received by June 30, 2015, the 2015 Bridge Loan and all accrued but unpaid interest due to RCF will be immediately due and payable in cash.

Convertible Loan

The 2015 RCF Convertible Loan will have the same terms and conditions as the RCF Convertible Loan, except for the following changes to the interest rate, conversion price and the increased amount available under the loan. The interest rate on the 2015 RCF Convertible Loan will be increased to 15% per annum and the conversion price will be decreased to C\$0.0469, a 25% discount to the 5-day VWAP as at January 30, 2015.

BUFFALO COAL CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and February 28, 2014

(Presented in South African Rands)

32 SUBSEQUENT EVENTS (continued)**Restructuring of mining operations**

On March 11, 2015, the Company commenced with implementation of the restructuring of its operational and cost structures at BC Dundee, as announced on December 22, 2014. The consultation process in South Africa with organised labour and relevant stakeholders was completed as required in terms of section 189A of the LRA, and as a consequence, the Company commenced with the retrenchments of mine employees. As a result, the Company's workforce will be reduced by approximately 25% once implementation of this process has been completed.

Legal Matter

On March 20, 2015, the Association of Mineworkers and Construction Union ("AMCU") brought an application against BC Dundee and Zinoju in the Labour Court of South Africa pertaining to the Section 189A restructuring process in terms of the LRA which the Company implemented, as announced on March 11, 2015. The matter has been set down to be heard on an urgent basis on March 31, 2015, and BC Dundee and Zinoju have engaged with legal representatives and will oppose the application.

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.