

Sentula Mining Limited

Incorporated in the Republic of South Africa
(Registration number 1992/001973/06)
Share code: SNU ISIN: ZAE000107223
("Sentula" or "the Company")



MERGER OF SENTULA COAL PROPRIETARY LIMITED AND CLOSE-UP MINING PROPRIETARY LIMITED AND WITHDRAWAL OF THE CAUTIONARY ANNOUNCEMENT

1. Introduction

Further to the renewal of the cautionary announcement released by the Company on SENS, dated 23 May 2016, shareholders are hereby advised that Sentula, Sentula Coal Proprietary Limited ("Sentula Coal"), a 50.5% held subsidiary of Sentula, and Close-Up Mining Proprietary Limited ("Close-Up") have entered into a merger agreement ("the Merger Agreement") in terms of which -

- (a) Sentula will dispose of its entire 50.5% shareholding in Sentula Coal to Close-Up at the aggregate par value of R50.50, settled in cash;
- (b) Sentula will dispose of its claims against Sentula Coal in the amount of R50 million to Close-Up and in consideration thereof, Close-Up will allot and issue 2 667 ordinary shares of no par value to Sentula, constituting 40% of the Close-Up shares in issue;
- (c) Existing Close-Up shareholders will transfer R10 million of their existing claims against Close-up in favour of Sentula; and
- (d) Benicon Opencast Mining Proprietary Limited ("Benicon"), an 83% held subsidiary of Sentula, will dispose of certain selected plant and equipment to Sentula valued at open market value for R50 million (for partial settlement of the outstanding inter-company loan account), which plant and equipment shall thereafter be disposed of by Sentula, to Sentula Coal for the same price (on loan account) ("the Benicon Plant and Equipment Disposal"),

(collectively, "the Transaction").

The ultimate result of the Transaction is that Sentula will hold 40% of the shares in Close-Up, which will, in addition to its existing opencast mining operations, hold 50.5% of the shares in Sentula Coal, with Sentula Coal owning certain plant and equipment previously owned by Benicon.

The Merger Agreement is subject to warranties as are normal for agreements of this nature.

2. Description of the businesses of Close-Up and Sentula Coal

Close-Up was established in 2004 and provides opencast mining services, plant hire and integrated mining development services to the mining industry in South Africa. Close-Up is involved in complete mining projects in all facets from establishment of new box-cuts to rehabilitation for major and junior coal mining companies. On 31 July 2015 a major client of Close-Up, Optimum Coal Mine Proprietary Limited ("Optimum"), went into business rescue proceedings which severely impacted Close-Up's operations during 2015. In addition the majority of Close-Up's new equipment acquired for the then newly concluded Optimum contract was left unutilised.

Sentula currently holds 50.5% of the shares in Sentula Coal with the remaining shares held by the Sentula Employee Trust. Sentula Coal is 62.91% black owned in terms of the Broad Based Economic Empowerment Code of Good Practice. Sentula Coal's opencast mining activities commenced during 2015 when Sentula Coal secured its first opencast mining contract with Anglo Coal. Sentula Coal appointed Benicon as its main subcontractor.

The Anglo contracts historically performed by Benicon, came up for renewal during early 2016. As a result of Anglo's revised procurement requirements, the contracts were awarded to Sentula Coal which subsequently appointed Close-Up and Benicon as subcontractors to perform the mining activities.

3. Rationale for the Transaction

The age of the Benicon equipment negatively impacted the ability of Sentula Coal to deliver into the Anglo Coal contracts. As an alternative to the significant investment required to replace the equipment, Close-Up and Sentula have identified synergies for the development of joint opportunities in the provision of opencast mining services.

Close-Up has the necessary equipment, operational and management resources, and Sentula Coal provides certain equipment, labour and access to mining volumes through established contracts. Close-Up and Sentula have accordingly agreed to unlock the aforementioned synergies.

Sentula Coal is in the process of employing a substantial number of current Benicon employees as well as acquiring selected plant and equipment. From 1 July 2016 Sentula Coal will be responsible for all Anglo Coal contracts historically executed by Benicon.

As a result Benicon will be left with idle plant and equipment, certain debtors and some inventory. Benicon's assets will be liquidated in an orderly fashion to raise the necessary cash to settle liabilities.

4. Financial information

The unaudited net asset value of Sentula Coal at 31 March 2016 was R 2 million. For the 12 months to 31 March 2016, Sentula Coal generated profits after tax of R 2 million.

The unaudited net asset value of Close-Up at 31 December 2015, being the most recent financial year end of Close-Up, was R 119 million. After the loss of more than 50% of turnover as a result of business rescue proceedings at Optimum, Close-Up incurred an after tax loss of R19 million (revenue R124 million) for the year then ended. For the year ended 31 December 2014, Close-Up generated a profit before tax of R 23 million (revenue R 262million) after taking into account a bad debt provision of R23 million.

The book value of the assets transferred pursuant to the Benicon Plant and Equipment Disposal as at 31 March 2016 was R34 million. Sentula's accounting records do not record revenue and operating cost information per asset. It is therefore not possible to accurately determine the profit or loss after tax generated from the Benicon Plant and Equipment Disposal assets.

5. Suspensive conditions

The Transaction is conditional, *inter alia*, upon the following suspensive conditions being fulfilled or, where possible, waived:

- (a) the necessary board and/or shareholders' approvals being obtained by Close-Up, Sentula and Sentula Coal;
- (b) the Shareholders' Agreement between the existing shareholders of Close-Up and Sentula is concluded;
- (c) the Benicon Plant and Equipment Sale agreement is concluded and becomes unconditional;
- (d) the Close-Up memorandum of incorporation ("MOI") is amended in accordance with, *inter alia*, the JSE Listings Requirements and the amended MOI is filed with the Companies and Intellectual Properties Commission ("CIPC"); and
- (e) obtaining all the relevant regulatory approvals.

6. Effective date of the Transaction

The Transaction will become effective on the first day of the month following the month during which the last of the suspensive conditions (as detailed in paragraph 5 above) are either fulfilled or, where possible, waived.

7. Circular and notice of general meeting

The Transaction remains subject to, *inter alia*, approval of Sentula shareholders at a general meeting. A circular containing further information in respect of the Transaction, including a notice of general meeting, will be posted to shareholders in due course.

8. Withdrawal of cautionary announcement

Following the release of this announcement which contains the salient information relating to the Transaction, the cautionary announcement dated 11 April 2016 is hereby withdrawn.

Johannesburg
27 June 2016

Sponsor and corporate advisor



Questco Proprietary Limited