KPMG Corporate Finance
A division of KPMG Financial Advisory Services (Australia) Pty Ltd
Australian Financial Services Licence No. 246901
Riparian Plaza
71 Eagle Street
Brisbane Qld 4000

GPO Box 223
Brisbane Qld 4001
Australia

ABN: 43 007 363 215
Telephone: +61 7 3233 3111
Facsimile: +61 7 3233 3100
www.kpmg.com.au

The Directors
Coal of Africa Limited
Level 1
Old Swan Brewery
173 Mounts Bay Road
Perth WA 6000

10 December 2012

Dear Sirs

Independent Expert Report

PART ONE – INDEPENDENT EXPERT REPORT

1 Introduction

On 1 October 2012, Coal of Africa Limited (CoAL or the Company) announced that it had entered into a binding offer letter (Binding Offer) with Haohua Energy International (Hong Kong) Co. Limited (HEI or the Offeror), a wholly owned subsidiary of Beijing Haohua Energy Resource Co. Limited (BHE[1]), for HEI to subscribe for 100 million United States Dollars[2] ($ or USD) of CoAL shares, in two tranches (the Proposed Transaction).

On 10 December 2012 CoAL and BHE entered into a subscription agreement (Subscription Agreement) which replaced the terms of the Binding Offer by setting out those terms in a more formal agreement.

Under the Subscription Agreement, the two tranches of the equity placements are structured as follows:

- An initial $20 million tranche (Initial Placement), subject to approval by the Australian Foreign Investment Review Board (FIRB), given BHE is a Chinese State Owned Entity, at an issue price of

[1] Henceforth, both BHE and HEI will be referred to as BHE.
[2] All currency amounts in this report are denominated in US Dollars (USD) unless otherwise stated.

£0.25[3] per share (subject to the adjustment set out below). We note, at the date of this report, FIRB approval has been granted and the $20 million has been received by CoAL.

- A second subscription of $80 million (Conditional Placement), subject to receiving requisite approvals, including approval by the relevant authorities in the People's Republic of China (PRC), at an issue price of £0.25[3] per share.

Each tranche is to be based on a USD to Great British Pound (GBP) exchange rate (GBP:USD) of 1.6167.

If BHE has not obtained the required PRC approvals for the Conditional Placement by 31 January 2013 (or such later date agreed by CoAL and BHE), the Initial Placement will still proceed, but will be adjusted so that BHE pays a price of £0.35 per share. In this instance the Conditional Placement will not proceed unless CoAL and BHE agree otherwise.

The Proposed Transaction is intended to form the basis for a strategic partnership between BHE and CoAL to facilitate the development of CoAL's assets. The key considerations dictating the terms on which the two parties will act, to ensure a mutually beneficial relationship, will be defined in a Cooperation Agreement which, at the date of this report has yet to be finalised. In addition, subject to the completion of the Conditional Placement, CoAL will use all reasonable endeavours to appoint two persons nominated by BHE to act as directors of CoAL. Further details in relation to the terms of the Proposed Transaction are set out in the Notice of Meeting and Explanatory Memorandum to which this report is attached.

The Directors of CoAL have requested KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) to prepare an Independent Expert Report (IER) to the shareholders of CoAL not associated with the bidder (non-associated shareholders) in relation to the Conditional Placement. This report is a summary of KPMG Corporate Finance's opinion as to the merits or otherwise of the Conditional Placement. This report should be considered in conjunction with and not independently of the information set out in the balance of this report. The IER has been prepared for Australian regulatory purposes only.

KPMG Corporate Finance's Financial Services Guide is contained in Part Two of this report.

1.1 Company

CoAL is an Australian incorporated, South African based coal production company which is also registered as an external company in the Republic of South Africa (South Africa) and is listed on the Australian (ASX), Johannesburg (JSE) and London (AIM) stock exchanges. The Company engages in the acquisition, exploration, development and production of metallurgical and thermal coal through a diversified portfolio of assets at different stages of maturity throughout South Africa. As of the close of

[3] £0.25 per share translates to approximately 0.39 Australian Dollars (AUD) at the 28 September 2012 spot exchange rate of 1.5538 sourced from Capital IQ.

trading on 28 September 2012 (being the last trading day before the announcement of the Proposed Transaction), CoAL had a market capitalisation of $191.1 million[4].

1.2 Other party

BHE is a listed coal producer based in Beijing and is a constituent of the Shanghai Stock Exchange (SSE) 180 index and the SSE composite index. BHE is engaged in mining, washing, export and sales of coal products. BHE exports 2 million tonnes (Mt) of anthracite products annually and is the largest exporter of anthracite coal from China. BHE holds interests in coal mines, both in development and operating and its' products are principally used in metallurgy, electric power, chemical engineering, construction materials and other industrial sectors. BHE is also engaged in technology development, consultation, transfer, introduction and training.

2 Scope of Report

Section 606 of the Corporations Act (the Act) expressly prohibits an individual (or corporation) obtaining more than 20 percent of the voting power of an Australian listed company unless a full takeover offer is made. An exemption to this rule is contained in item 7 section 611 of the Act, which allows the target company shareholders the opportunity to vote to forgo their right to a full takeover. In passing the resolution, no votes may be cast by the potential acquirer or their associates or by the persons from whom the acquisition is to be made or their associates.

Immediately following completion of both tranches of the Proposed Transaction, BHE will increase its direct relevant interest in the Company from 0 percent to up to approximately 23.6 percent (assuming the Initial Placement shares are subscribed for at £0.25 per share). Accordingly, the directors of CoAL are seeking the approval of the non-associated shareholders, pursuant to item 7 of section 611 of the Act, for the Conditional Placement component of the Proposed Transaction to proceed.

In the case of a resolution pursuant to item 7 section 611 of the Act, Regulatory Guide 74 (RG74) "Acquisitions approved by members" issued by the Australian Securities and Investments Commission (ASIC) requires that non-associated shareholders be supplied with all information that is material to the decision on how to vote on the acquisition. In such circumstances, the Directors of CoAL are required to provide shareholders with a detailed analysis of whether the Proposed Transaction is fair and reasonable. The Directors may undertake such an analysis or, as is more commonly the case, the Directors may engage an independent expert to report on the proposal. In this case, the Directors of CoAL have requested KPMG Corporate Finance to prepare an IER.

The term 'fair and reasonable' has no legal definition. RG 74 provides that any analysis should comply with the requirements of Regulatory Guide 111 (RG 111) "Content of expert reports", which in turn, provides that the term 'fair and reasonable' is not regarded as a compound phrase.

---

[4] $191.1 million translates to approximately £118.52 million at the 28 September spot exchange rate of 1.6123 sourced from Capital IQ.

Fairness

RG 111 provides that an offer is fair if the value of the consideration is equal to or greater than the value of the securities subject to the offer. It is a requirement of RG 111 that the comparison be made assuming 100 percent ownership of the 'target' irrespective of whether the consideration is scrip or cash and without considering the percentage holding of the 'bidder' or its associates in the target prior to the bid. That is, RG 111 requires the value of CoAL to be assessed on the theoretical basis as if BHE was actually acquiring 100 percent of CoAL, not just increasing its direct relevant interest to 23.6 percent.

Accordingly, the principal matter we were required to consider is whether the consideration to be paid by BHE under the Conditional Placement of £0.25 cash per new CoAL share to be issued, is at or exceeds the fair market value of a CoAL share assessed on a 100 percent control basis.

When assessing the full underlying value of the Company, we have considered those synergies and benefits that would be available to a pool of potential purchasers of CoAL. We have not included the value of special benefits that may be unique to BHE. Accordingly, our valuation of CoAL has been determined regardless of the bidder and any special benefits that may accrue to BHE have been considered separately.

Reasonableness

An offer is deemed by RG 111 to be "reasonable" if it is fair. However an offer can also be reasonable even if despite not being fair there are sufficient reasons for non-associated shareholders to accept the offer in the absence of any higher bid before the close of the offer.

In considering whether the Conditional Placement is reasonable, we have considered the following factors:

- The rationale and implications of the Conditional Placement.
- The extent of any implied premium over recent trading prices for a CoAL share, if any, being paid by BHE.
- Other alternatives considered and the prospects of a superior alternative offer emerging.
- The consequences of not approving the Conditional Placement.
- The implications of each alternative for non-associated shareholders.
- Any other benefits or disadvantages of the alternatives that we believe to be relevant.

Potential outcomes

Whilst this report is not required for Resolutions 1 or 2, as defined in the Notice of Meeting and Explanatory Memorandum to which this report is attached, non-associated shareholders should be made aware that the outcomes of approving both resolutions may vary if all pre-requisite conditions of the Conditional Placement are not satisfied. These outcomes are provided below.

Outcome 1: All pre-requisite conditions are satisfied and the Initial Placement and Conditional Placement proceed at £0.25 per share, resulting in BHE obtaining an aggregate 23.6 percent interest in CoAL.

Outcome 2: The PRC approvals are not received by 31 January 2013 (or such later date agreed by CoAL and BHE), resulting in only the Initial Placement proceeding at £0.35 per share, providing BHE with a 4.2 percent interest in CoAL.

Outcome 3: The PRC approvals are not received by 31 January 2013, resulting in the Initial Placement proceeding at £0.35 per share, CoAL and BHE agree to extend the date for obtaining the PRC approvals, the PRC approvals are obtained within the extended time and the Conditional Placement proceeds, resulting in BHE obtaining an aggregate 22.6 percent interest in CoAL.

Readers should note, if the Conditional Placement does not proceed, the Subscription Agreement stipulates that CoAL and BHE will cooperate to consider other arrangements pursuant to which BHE is able to provide funding support to CoAL including through the underwriting of any rights issue contemplated by CoAL, at the time. In the event that BHE provides funding support to CoAL by the way of underwriting any rights issue, BHE will be entitled to charge CoAL an underwriting fee of 0.25 percent of the amount committed by BHE under the rights issue.

3 Summary of opinion

The Conditional Placement is not fair but is reasonable and, therefore, in the absence of a superior alternative offer emerging, is in the best interests of non-associated shareholders as a whole.

In forming this opinion the principal matter we were required to consider was whether the consideration to be received by the Company of £0.25 cash per new CoAL share to be issued under the Conditional Placement is at or exceeds the fair market value of a CoAL share on a 100 percent control basis.

We have assessed the fair market value of a CoAL share, inclusive of a full premium for control, to lie in the range of 33.6 pence and 43.3 pence**,** which compares to the consideration to be received of £0.25 cash per share. Therefore in our opinion the Conditional Placement is not fair.

In accordance with the requirements of RG 111, we have assessed the fair market value of CoAL share inclusive of a control premium. However as BHE will not acquire 100 percent of CoAL and clearly will not have free and unfettered control over the affairs of the Company, we would not expect that BHE would be required to pay a full premium for control in the current circumstances. Consistent with RG111 Requirements, this forms part of our consideration of the reasonableness of the Conditional Placement.

Whilst the Conditional Placement has been assessed as being not fair, a transaction can still be reasonable if there are sufficient reasons for security holders to accept the transaction, in the absence of any higher offer before the close of the offer. As such the evaluation of the Conditional Placement requires consideration of both value and other matters that may impact upon non-associated shareholders.

In particular, management has advised, and we concur, that in the absence of the Conditional Placement, the Company is unlikely to be in a position to continue to develop its assets in the timeframe currently contemplated and would be required to carefully manage the scale of its day-to-day activities whilst it seeks an alternative source of funds.

Non-associated shareholders will retain their existing shares in the Company and therefore will participate indirectly in any future benefits that may be realised by the Company through application of the pool of funds raised under the Proposed Transaction (including the Conditional Placement) or through any future change of control transaction. On the other hand, non-associated shareholders are not being provided an opportunity to realise a direct premium for control in respect of their existing shares under this transaction.

Accordingly, a key decision for non-associated shareholders is whether the potential benefits of CoAL receiving an immediate cash amount of approximately $92.3 million, being $100 million less transaction costs, which will be available to the Company to further progress the development of its assets, outweighs holding a diluted interest in the operations of CoAL going forward.

Whilst non-associated shareholders could reject the Conditional Placement in the hope that BHE will agree to an increase in the issue price beyond that negotiated by the Company, there can be no guarantee that BHE will do so. Moreover, it is also possible that failure by the non-associated shareholders to approve the Conditional Placement could result in BHE reconsidering its participation in CoAL. Non-associated shareholders should be aware that the Company has not arranged, and is not certain to be able to arrange, alternative funding on terms considered more attractive than those currently on offer under the Proposed Transaction.

CoAL and BHE have agreed that if the Conditional Placement is not approved, they will cooperate to consider other funding arrangements, including BHE underwriting a future rights issue, with BHE charging an underwriting fee of 0.25 percent of the amount committed by BHE. If this scenario were to eventuate, BHE would subscribe at the same price as non-associated shareholders, and would also receive an underwriting fee.

Non-associated shareholders should also note that the Company has been investigating funding options at both equity and individual project levels for some time and has already engaged in discussions with various potential investors. However, no other offer that is considered to be more financially attractive to the Proposed Transaction has emerged.

We note in the FY12 Financial Statements, the Auditors added an emphasis of matter indicating that a material uncertainty exists in relation to CoAL continuing as a going concern due to factors including FY12's operating loss and net cash outflows from operating and investing activities.

Our assessment of the key issues considered in forming our opinion, and the issues that non-associated shareholders should consider in deciding whether to support the Conditional Placement, are set out below.

4 Key considerations

4.1 Assessment of the fairness of the Conditional Placement

BHE is not paying fair market value (inclusive of a full premium for control) to acquire its stake in CoAL.

We have assessed the underlying value of CoAL, inclusive of a full premium for control, to lie in the range of $433.4 million and $559.3 million[5]**,** or between approximately 33.6 pence and 43.3 pence per CoAL share. This compares to the consideration to be received by CoAL for the issue of new shares to BHE of £0.25 cash per share. As such the Conditional Placement is not fair.

Set out in the table below is a summary of the range of fair market values at which CoAL's shares have been assessed on a 100 percent control basis.

Table 1: Summary of range of assessed fair market values on a 100 percent control basis

	Low USD'000	High USD'000
Development Assets	378,419	483,527
Operating Assets	145,268	160,723
Other Assets	8,876	15,501
Total mineral assets	**532,562**	**659,750**
Add – cash	30,319	30,319
Add – funds from the exercise of options[1]	-	-
Add – future loan to Rothe Investments (Pty) Ltd	10,366	13,461
Add – other net surplus assets/(liabilities)	(22,062)	(22,062)
Less – interest bearing liabilities	(39,751)	(39,751)
Less – Matola TCM Take or Pay Liability	(22,201)	(22,565)
Less – capitalised corporate overheads (net of synergies)	(55,879)	(59,880)
Total equity value	**433,355**	**559,274**
Current shares on issue (000s)	800,951	800,951
"In the money" options (000s)[1]	-	-
Diluted number of shares on issue (000s)	**800,951**	**800,951**
Value per share, inclusive of a full premium for control - cents	**54.1**	**69.8**
GBP:USD exchange rate	1.6123	1.6123
Value per share, inclusive of a full premium for control - pence	**33.6**	**43.3**

Note:
1. Given our range of undiluted values for a CoAL share, the 3.5 million options at £0.25 approved on 29 November 2012 (post the valuation date of 28 September 2012) are assumed to be exercised, resulting in an equity value in the range of $434.8 million to $560.7 million or 33.5 pence to 43.2

[5] Equates to £269.7 million to £347.8 million converted at the 28 September 2012 spot GBP:USD exchange rate of 1.6123 sourced from Capital IQ

pence per share, on a fully diluted basis. Other than as discussed above, none of the options summarised in Section 8.10 are assumed to be exercised.
2. Effective valuation date is 28 September 2012

Source: KPMG Corporate Finance analysis

Due to the nature of CoAL's Operating, Development and Other Assets (CoAL's Assets) it was necessary for CoAL to commission a report to be prepared by an independent technical specialist (Technical Specialist) to assist in this valuation. Venmyn Rand (Proprietary) Ltd known herein as Venmyn Deloitte, a subsidiary of Deloitte Consulting South Africa (Proprietary) Ltd (Venmyn Deloitte) was appointed as a Technical Specialist given its familiarity with CoAL's Operating and Development Assets, its independence and relevant industry experience. In respect of the Operating and Development Assets, the Technical Specialist was responsible for preparing an independent technical report providing:

- A valuation of CoAL's Development Assets.
- An assessment of the reasonableness of the technical assumptions underpinning the cash flow forecasts prepared by CoAL for CoAL's Operating Assets.

The Technical Specialist report has been included as Appendix 6.

CoAL has also provided us with independent valuations prepared for the key Other Assets. Given the relative immateriality of these Other Assets, we have utilised the valuations prepared by independent valuers. We have satisfied ourselves as to the qualifications and independence of these independent valuers. In considering our range of assessed fair market values for a CoAL share, it is important for non-associated shareholders to note that, in accordance with the requirements of RG 111, our range of assessed values has been calculated to include a full premium for control as though the Proposed Transaction (including the Conditional Placement) involved the acquisition by BHE of a 100 percent interest in the Company. BHE will in fact not acquire 100 percent and will make its first investment in the Company up to approximately 23.6 percent if the relevant pre-conditions outlined in Sections 1.3 & 1.5 of the Notice of Meeting and Explanatory Memorandum are satisfied. Reflecting that, notwithstanding the increase in its interest in the Company and its entitlement to have two nominees appointed to the Board of CoAL, BHE will clearly not have free and unfettered control over the affairs of the Company. We would not expect that an acquirer would be required to pay a full premium for control in the current circumstances. This view would, in the absence of the requirements of RG 111, have resulted in a significant reduction in our range of assessed fair market values.

We would also highlight to readers that conclusions as to the value for CoAL at its current stage of development and in the current market conditions need to be treated with some caution due to the level of uncertainty surrounding various key assumptions; in particular, our range of assessed values for the Operating Assets which are particularly sensitive to coal prices and exchange rate assumptions. Coal prices and exchange rates have exhibited a significant degree of volatility in recent times and there is a wide range of views on the part of commodity and market analysts as to future long-term coal prices and exchange rates. Whilst we consider both the coal price and the exchange rate assumptions adopted by us to be reasonable as at the date of this report, a wide range of assumptions could credibly be adopted, which could impact assessed fair market values either positively or negatively. CoAL also has significant financing risk given the capital requirements to exploit its Operating Assets, Development Assets and Other Assets.

Depending upon the views taken by individual non-associated shareholders in relation to the prospects and outcome of future events, it is quite conceivable that individual non-associated shareholders could form a different view to us as to appropriate ranges of values and potentially a different opinion in relation to fairness.

4.2 Assessment of the reasonableness of the Conditional Placement

Notwithstanding our assessment that the Conditional Placement is not fair, RG 111 provides that it is still open to the expert to conclude that a transaction is reasonable despite not being fair where the expert believes there are sufficient reasons for security holders to accept the transaction in the absence of a superior alternative transaction.

The principal matters we have considered in assessing that the Conditional Placement is reasonable despite not being fair are summarised below.

Advantages

BHE is paying a premium over trading prices for CoAL shares immediately prior to the announcement of the Proposed Transaction.

The closing price of a CoAL share on the trading day prior to the announcement date was 15.25 pence, which implies that the Conditional Placement is priced at a significant premium. The Company's current trading price, at the date of this report, was 12.5 pence[6], which also implies a significant premium.

In order to identify a reasonable range for implied premia/discounts to trading prices for placements in the Australian marketplace, we analysed transaction data included in the "Energy" and "Metals and Mining" classifications of the Global Industry Classification Standard sourced from Connect4 over the period since 1 July 2011. A data set of 1,029 placements in the Energy and Metals and Mining sectors was sourced from Connect4. Significant variances existed in the results and certain outliers were excluded. The results of our analysis are detailed below:

Table 2: Historical placement premium analysis

Premia and Discount Analysis	Energy	Metals & Mining	Total
Number of observations	306	723	1,029
Mean	0%	1%	1%
Median	(9%)	(4%)	(6%)
Number of premiums	88	238	326
Percentage of placements offered as a premium	29%	33%	32%

Source: Capital IQ, Connect4 and KPMG Corporate Finance analysis

[6] The closing share price of CoAL on the AIM index as at 7 December 2012 was 12.5 pence.

We note that only approximately 32 percent of those placements reviewed were completed at a premium to the pre-announcement share price.

The premium being paid by BHE of 64 percent, implied by a comparison of the Proposed Transaction consideration of £0.25 or (AUD0.39) per share to CoAL's closing share price on the trading day prior to the announcement of the Proposed Transaction, lies above the mean and median of observed placement transactions. The premium being paid by BHE of 100 percent, implied by a comparison of the Conditional Placement consideration to the current trading price at the date of this report (12.5 pence[6]), also lies above the mean and median.

We would caution readers that given the current volatility in equity markets, the current price of a CoAL share could differ, potentially materially, from the price at which the Company's shares are trading at the date non-associated shareholders meet to consider the Proposed Transaction (including the Conditional Placement). General market sentiment and conditions and reaction to future Company announcements could all also potentially impact upon CoAL's share price. Accordingly, non-associated shareholders will need to consider, inter alia, movements in CoAL's share price subsequent to the date of this report in deciding whether to approve the Conditional Placement.

The Proposed Transaction will improve CoAL's net asset position

Based on CoAL's pro forma balance sheet as at 30 June 2012 (including the assumption that two prior capital raisings have settled) set out in Section 3.3(d) of the Notice of Meeting and Explanatory Memorandum, the Proposed Transaction will improve CoAL's net asset position. Assuming the Conditional Placement is approved, resulting in a total equity injection of $92.3 million (after transaction costs), the Proposed Transaction will improve CoAL's net asset position by approximately 21.5 percent to $521.6 million from the unaudited net pro forma asset balance of $429.3 million as at 30 June 2012, inclusive of two prior capital raisings in July and August.

Completion of the Proposed Transaction will allow the Company to pursue the development of Vele and the Development Assets and its exploration targets in a timely and orderly manner

The Company has advised that the funds raised from the Proposed Transaction will be utilised to:

- Provide an additional $25 million required to increase the capacity and capability of the Vele Colliery plant and expedite the ramp-up of the production of semi-soft coking and thermal coal to steady state production.
- To fund the working capital requirements of the Company including:
  - Meeting the current operational cost of the Mooiplaats thermal operation (which the Company is evaluating for strategic disposal or business combination).
  - Satisfaction of a take-or pay obligation for export capacity at the Matola port terminal.
  - Completion of the revised definitive feasibility study for the Makhado Project.
  - Commencement of the feasibility studies for the Mopane, Chapudi and Makhado Extension Projects.
  - Facilitation of the restructuring and/or full or part settlement of existing liabilities or obligations.

In the absence of the Proposed Transaction, the Directors have indicated and we concur, that the level of the Company's day-to-day activity would need to be managed carefully whilst it seeks alternative sources of funding. This would likely place under pressure CoAL's ability to complete development of the Vele and Makhado projects**,** as well as the suite of more junior development projects, in the timeframe currently contemplated. CoAL has advised that the proceeds from the Proposed Transaction will not be used for the capital development and construction costs for the Makhado projects which will be funded separately.

We also note that the Company has been investigating funding options at both equity and individual project levels for some time and has already engaged in discussions with various potential investors. However, no other offer that is considered to be more financially attractive to the Proposed Transaction has emerged. Accordingly, should the Conditional Placement not be approved, there is a risk that CoAL may not be able to identify and secure funding on terms considered more attractive than those currently on offer under the Proposed Transaction.

With a significant equity position BHE will be incentivised to work towards the future success of CoAL

As a major shareholder in CoAL, BHE will have a significant financial and strategic incentive to ensure the Company's projects succeed. In fact, as this is BHE's first investment outside the PRC the Directors of CoAL believe, and we concur, that BHE are strongly incentivised to work with CoAL to ensure its success. Non-associated shareholders will participate pro rata in any benefits that may be generated should BHE be able to leverage its strengths and areas of expertise.

Disadvantages

Completion of the Proposed Transaction (including the Conditional Placement) will result in a reduction of the interest of existing non-associated shareholders' interests in CoAL

Approval of the Conditional Placement will result in a reduction in existing non-associated shareholders interests in the existing operations and net assets of the Company as follows:

> **Outcome 1:** Both the Initial and Conditional Placements are completed at £0.25 per share and non-associated interests will reduce from 100.0 percent to 76.4 percent (immediately following completion).
>
> **Outcome 2:** The Initial Placement only is completed and non-associated interests will reduce from 100.0 percent to 95.8 percent (immediately following completion).
>
> **Outcome 3:** The Initial Placement completes at £0.35 and the Conditional Placement completes at £0.25 and non-associated interests will reduce from 100 percent to 77.4 percent of CoAL (immediately following completion).

If the Conditional Placement is approved, the interest of current non-associated shareholders in the Company's existing development and exploration assets will be significantly diluted. However, we note that non-associated shareholders will also receive a similar pro rata interest in the equity injection by BHE and also in any other indirect benefits through the development of the Company's Assets in a timely and orderly manner.

Readers should note that the approval of all Resolutions of the Notice of Meeting and Explanatory Memorandum by non-associated shareholders will facilitate, but not guarantee, Outcome 1 occurring as the outcome will still be dependent upon the conditions precedent having been satisfied.

The prospect of non-associated shareholders receiving a takeover offer in the short term may be diminished as a result of the Proposed Transaction (including the Conditional Placement)

BHE has no pre-existing equity interest in the Company. Accordingly, in the event that the Proposed Transaction is successfully implemented, any offer to acquire the Company as a whole, other than by BHE itself, would require the approval of BHE, which may act as a deterrent to any third party purchaser of the Company. We are advised by the Directors that they are not aware of any offer for CoAL as a whole at the date of this report.

Conversely, we note that should the funds received from the Proposed Transaction result in significant advancement of CoAL's projects, then this may over time generate an increased level of interest in the Company from potential larger acquirers.

4.3 Other considerations

Directors' intentions

Section 3.3(J) of the Notice of Meeting and Explanatory Memorandum, to which this report is attached, advises that based on the information available, including the information contained in the Notice of Meeting and Explanatory Memorandum itself and this IER, the Directors unanimously recommend that non-associated shareholders vote in favour of Resolution 3.

Each Director of the Company intends to vote all the shares they own or control the right to vote, in favour of Resolution 3.

The Proposed Transaction is subject to a number conditions precedent that we considered to be potential impediments to the completion of the Proposed Transaction

The conditions precedent for the Initial Placement and Conditional Placement are set out in Sections 1.3 & 1.5 of the Notice of Meeting and Explanatory Memorandum. Whilst a number of these conditions precedent are yet to be satisfied or waived and therefore represent an impediment to the successful completion of the engagement, we do not consider, based on information available at the date of this report, that they are of such a nature as to conclude that they are unlikely to be satisfied. In our opinion, these conditions are not unreasonable and should not present a lower than normal likelihood of the Proposed Transaction being completed.

Additional one off costs

CoAL has estimated that the total costs of implementing the Proposed Transaction are likely to be in the order of $7.7 million. We note however that a portion of these costs will have been incurred, or will be committed, prior to the date that the non-associated shareholders meet to vote on the Proposed Transaction and will be payable whether or not the Proposed Transaction is successfully implemented. Transaction costs are likely to be in the order of $1.9 million if the Initial Placement is completed and $0.4 million if neither the Initial nor Conditional Placements are completed.

Implications of other outcomes occurring

In the event that non-associated shareholders approve the Proposed Transaction and the conditions precedent are met, CoAL will have additional cash resources of approximately $92.3 million and the non-associated shareholders will be diluted to a holding of 76.4 percent of CoAL.

However as discussed above, there are two other possible outcomes. The implications of these outcomes for the non-associated shareholders are as follows:

> **Outcome 2:** CoAL will have additional cash resources of approximately $18.1 million, with the cash proceeds being raised at an issue price of £0.35 per share and a strategic relationship with BHE established, including an agreement to cooperate to consider other arrangements pursuant to which BHE is able to provide support for CoAL.
>
> **Outcome 3:** CoAL will have additional cash resources of $92.3 million and the non-associated shareholders will be diluted to a holding of 77.4 percent of CoAL.

Approval of Resolution 3 will facilitate but not guarantee completion of the Proposed Transaction

Given the conditions precedent, non-associated shareholders should note there is no guarantee that even if the non-associated shareholders approve the Proposed Transaction, Outcome 1 will occur.

5 Other matters

In forming our opinion, we have considered the interests of the non-associated shareholders of CoAL as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual non-associated shareholders. It is not practical or possible to assess the implications of the Proposed Transaction (including the Conditional Placement) on individual non-associated shareholders as their financial circumstances are not known. The decision of non-associated shareholders as to whether or not to approve the Proposed Transaction (including the Conditional Placement) is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual non-associated shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the proposed resolutions may be influenced by his or her particular circumstances, we recommend that individual non-associated shareholders including residents of foreign jurisdictions seek their own independent professional advice.

Our report has also been prepared in accordance with the relevant provisions of the Act and other applicable Australian regulatory requirements. This report has been prepared solely for the purpose of assisting non-associated shareholders in considering the Conditional Placement. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Notice of Meeting and Explanatory Memorandum to be sent to non-associated shareholders in relation to the Proposed Transaction, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it appears in the Notice of Meeting and Explanatory Memorandum.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion. We noted above that the Cooperation Agreement has yet to be finalised. In the event the final terms of the Cooperation Agreement are materially different to the terms set out in the Subscription Agreement this may have a material impact on our conclusion.

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.

Yours faithfully

Bill Allen
Authorised Representative

Jason Hughes
Authorised Representative

Contents

6 Scope of the report

6.1 Limitations and reliance on information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying it. Nothing in this report should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of CoAL for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. In addition, we have also had discussions with CoAL's management in relation to the nature of the CoAL's operations, its specific risks and opportunities, its historical results and its prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

CoAL has been responsible for ensuring that information provided by it or its representatives is not false or misleading or incomplete. Complete information is deemed to be information which at the time of completing this report should have been made available to KPMG Corporate Finance and would have reasonably been expected to have been made available to KPMG Corporate Finance to enable us to form our opinion.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included forecasts/projections and other statements and assumptions about future matters (forward-looking financial information) prepared by or on behalf of the management of CoAL. Whilst KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this report, CoAL remains responsible for all aspects of this forward-looking financial information. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We do not make any statement in this report as to whether any forecasts or projections included in this report will be achieved, or whether the assumptions and data underlying any prospective financial information are accurate, complete or reasonable. We do not warrant or guarantee the achievement of any such forecasts or projections.

Accordingly, KPMG Corporate Finance cannot provide any assurance that the estimates will be representative of the results which will actually be achieved during the forecast period. In particular, we have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any prospective financial information. Any variations from forecasts/projections may affect our valuation and opinion.

6.2 Disclosure of information

In preparing this report, KPMG Corporate Finance has had access to all financial information considered necessary in order to provide the required opinion. CoAL has requested KPMG Corporate Finance to limit the disclosure of some commercially sensitive information relating to CoAL and its subsidiaries. This request has been made on the basis of the commercially sensitive and confidential nature of the operational, commercial and financial information of the operating entities comprising CoAL. As such the information in this report has been limited to the type of information that is regularly placed into the public domain by CoAL.

6.3 Reliance on Technical Expert

ASIC Regulatory Guides envisage the use by an independent expert of specialists when valuing specific assets. To assist KPMG Corporate Finance in the valuation of CoAL's mineral assets CoAL has retained a Technical Specialist to prepare an independent technical report providing:

- a valuation of CoAL's Development Assets, and
- an assessment of the reasonableness of the technical assumptions underpinning the cash flow forecast prepared by CoAL for CoAL's Operating Assets.

A listing of CoAL's Development Assets and Operating Assets are contained in Section 8.1. A copy of the Technical Specialist report has been included at Appendix 6.

The Technical Specialist's report was prepared in accordance with the requirements for Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports (the ValMin Code), RG 111 and Regulatory Guide 112 (RG 112) – Independence of Experts.

ASIC Regulatory Guides recommend the fees payable to the technical specialists be paid in the first instance by the independent expert and claimed back from the party commissioning the independent expert. KPMG Corporate Finance's preferred basis for appointment of independent technical specialists is that the client commissions, and pays the fees directly to, the technical specialist, whilst KPMG Corporate Finance defines the scope of work for the technical specialist. We do not consider that the independence of the Technical Specialist is impaired by this arrangement.

We have satisfied ourselves as to the Technical Specialist's qualifications and independence from CoAL and BHE and have placed reliance on its report.

KPMG Corporate Finance was responsible for the determination of certain macroeconomic and other assumptions such as exchange rates, discount rates, inflation and taxation assumptions to determine the valuations for CoAL's Operating Assets.

Due to the various uncertainties inherent in the valuation process the Technical Specialist has determined a range of values within which it considers the value of each of the Development Assets of CoAL to lie. Consistent with the ValMin code, single or "preferred" values have been selected by the Technical Specialist as the most likely figure from within these ranges. The valuations ascribed by the Technical Specialist to the Development Assets of CoAL have been adopted in our report after any adjustment considered necessary to reflect market and other factors, where appropriate.

7 Industry overview

CoAL's principal mineral assets comprise thermal and metallurgical coal projects located throughout South Africa. In order to provide a context for assessing the prospects of CoAL, the Technical Specialist has set out in Sections 6 and 7 of its report an overview of recent trends in the global and South African coal market which is attached at Appendix 6 this report.

8 Company overview

CoAL is an Australian incorporated, South Africa based coal production company listed on the ASX, JSE and AIM stock exchanges. The Company engages in the acquisition, exploration, development and production of metallurgical and thermal coal through a diversified portfolio of assets at different stages of maturity throughout South Africa.

8.1 Key Projects

CoAL's projects can broadly be defined as follows:

- Development Assets.
- Operating Assets.
- Other Assets.

Table 3 below, provides a full listing of CoAL's Development and Operating Assets and their Joint Ore Reserves Committee (JORC) compliant reserves and resources as at 28 September 2012. A description of the reporting and classification of coal resources and reserves is contained in Section 8 of the Technical Specialist report. Resources and reserves quoted throughout this report are Mineable Tonnes Insitu (MTIS) unless otherwise stated.

Table 3: Summary of CoAL's Development and Operating Assets

Summary of CoAL's Development and Operating Assets						
Project Area	**Ownership interest in right holder**	**JORC Compliant resources**			**Reserves**	
		Measured	**Indicated**	**Inferred**	**Proven**	**Probable**
Million Tonnes (Mt)	**%**	**Mt**	**Mt**	**Mt**	**Mt**	**Mt**
Development Assets						
Chapudi Region						
Chapudi Area	74%	-	-	1,318.4	-	-
Chapudi West Area	74%	-	-	-	-	-
Wildebeesthoek Area	74%	-	-	-	-	-
Makhado Region						
Generaal	74%	-	-	-	-	-
Makhado	100%[1]	265.0	76.4	3.0	-	-
Mount Stuart	100%	-	-	55.5	-	-
Telema and Gray	100%	36.2	23.2	7.3	-	-

Summary of CoAL's Development and Operating Assets						
Project Area	**Ownership interest in right holder**	**JORC Compliant resources**			**Reserves**	
		Measured	**Indicated**	**Inferred**	**Proven**	**Probable**
Million Tonnes (Mt)	**%**	**Mt**	**Mt**	**Mt**	**Mt**	**Mt**
Mopane Region						
Jutland	74-100%[2]	-	-	-	-	-
Voorburg	74-100%[2]	94.9	100.5	23.9	-	-
Operating Assets						
Vele Colliery	100%	87.1	200.3	75.1	24.2	301.4
Mooiplaats Colliery	100%[3]	43.4	1.6	0.1	30.1	-
Vuna	100%[4]	1.4	-	-	1.4	-
Total		**528.0**	**402.0**	**1,483.3**	**55.7**	**301.4**

Notes:
1. Correct at date of report, however, CoAL intends to dispose of 26 percent to a BBBEE compliant entity prior to, or as a condition of, the granting of the New Order Mining Right (NOMR) for the Makhado Project.
2. CoAL has a 100 percent interest except in respect of the right holders acquired as part of the Chapudi acquisition (as discussed below). In these right holders CoAL has a 74 percent interest.
3. 26 percent of shareholding is currently under dispute (See Section 8.8).
4. Whilst the Company currently owns 49 percent of Vuna Mining, the holder of the NOMR for the Vuna Colliery, it has effective control of the Vuna Colliery through a management and coal purchase agreement.

Source: Technical Specialist Report as at 30 September 2012 (Appendix 6)

CoAL's Other Assets consist of:

- A 50 percent interest in Tshipise Energy (Pty) Ltd, an entity with Coal Bed Methane assets in the Greater Soutpansberg Region, which covers a region of 1,658 square kilometres.
- A 100 percent interest in Holfontein, which is currently recognised as an available for sale asset.

A summary overview of CoAL's principal mineral assets is set out below.

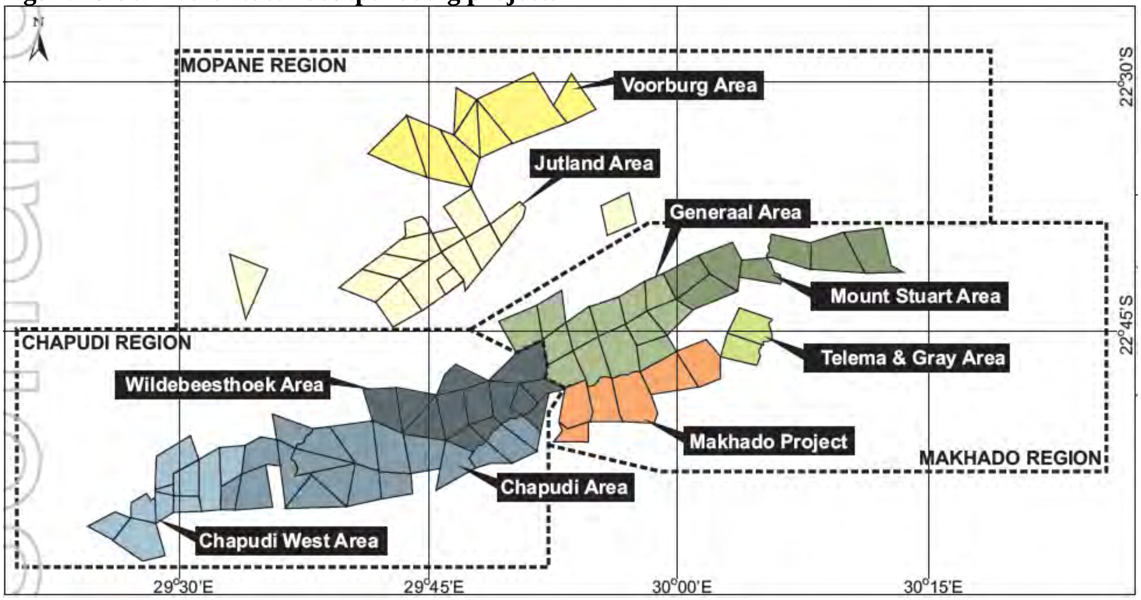
Development Assets

On 29 November 2010, CoAL announced that it had entered into an agreement for the acquisition of the Chapudi Coal Project and related exploration properties in the Limpopo province (Chapudi Acquisition) for $75 million, structured as a $2 million deposit and two separate purchase tranches of $43 million and $30 million respectively. The Chapudi Acquisition was subsequently to close in two tranches being an equity closing ($59.4 million) and a claims closing ($15.6 million). On equity closing $29.4 million was payable with $30 million being deferred to the granting of a NOMR or the second anniversary of the equity closing. On claims closing, the consideration was payable. This was structured under payment terms.

As at 28 September 2012, the deposit and $29.4 million of the equity consideration had been paid by CoAL. Part of the consideration from the Proposed Transaction will go to settling the remainder of the claims consideration, being $13.6 million. Under the payment terms, $5.6 million is due at the end of November 2012, with $4 million to be paid in each of December 2012 and February 2013.

The acquisition strengthens CoAL's existing presence in the Greater Soutpansberg Region, bringing the Company's total coal projects in the region to nine, as depicted below:

Figure 1: CoAL's Greater Soutpansberg projects



Source: CoAL Resource and Reserve Update 13 June 2012

Chapudi Region Projects

The Chapudi Region is comprised of the Chapudi Area (Chapudi), the Chapudi West Area (Chapudi West) and Wildebeesthoek Area (Wildebeesthoek). The Chapudi Region represents a significant portion of CoAL's Greater Soutpansberg assets in terms of resources. CoAL has a 74 percent economic interest in the Chapudi Region projects.

Chapudi is an advanced stage exploration asset which has a JORC defined resource of 1,318.4Mt Inferred resources, on a 100 percent ownership basis.

Chapudi West and Wildebeesthoek are both located adjacent to Chapudi, and are early stage exploration assets without defined resources. No exploration has taken place at either Chapudi West or Wildebeesthoek within the last 5 years.

Makhado Region Projects

The Makhado Region's key asset is the Makhado Project (Makhado). CoAL owns a 100 percent interest in Makhado which is CoAL's most advanced development project in the Greater Soutpansberg Coalfield area, located near Louis Trichardt, Limpopo Province. It is intended that Makhado will represent CoAL's flagship project within the Greater Soutpansberg Coalfield and subsequently CoAL's most important producing asset.

Makhado has a total JORC resource of 344.4Mt, largely across the Measured and Indicated categories.

The Makhado region also includes the following exploration assets:

- Telema and Gray – An advanced exploration area containing potential coking coal resources. Telema and Gray has a defined JORC resource of 66.8Mt (mostly Measured and Indicated).
- Mount Stuart – An advanced exploration area, with a JORC resource of 55.5Mt Inferred resources. Mount Stuart is believed to be a potential source of both coking and thermal coal.
- Generaal – An early stage exploration area, without a defined JORC resource. This was acquired as part of the Chapudi Acquisition.

Mopane region

The Mopane Region comprises the Voorburg Area (Voorburg) and Jutland Area (Jutland) exploration assets located near Musina, Limpopo province. CoAL has a 100 percent economic interest in certain right holders and 74 percent economic interest in the other right holders which make up the Mopane Region projects. This is discussed further in the Technical Specialist's report.

Voorburg is an advanced stage exploration asset with a defined JORC resource of 219.4Mt on a 100 percent ownership interest basis, largely across the Measured and Indicated categories. A small amount of historical mining occurred at Voorburg between 1911 and 1918 and subsequent drilling has been carried out. It is believed that Voorburg will be a source of semi-hard coking coal.

Jutland is an early stage exploration asset. A JORC resource has not been defined however the presence of coal is known through a preliminary feasibility study completed in the 1980s which proposed an underground mine with a 2.16Mt per annum (Mtpa) capacity over a 20 year life of mine (LOM).

Operating Assets

Vele Colliery

CoAL owns a 100 percent interest in the Vele Colliery (Vele), a NOMR covering 8,662.7 hectares (ha), located near Musina and bounded by the Zimbabwean border in Limpopo province. Mining operations began in FY12, during which 161 thousand tonnes (Kt) of Run of Mine (ROM) coal was produced. It is expected that Vele's steady state production will be up to 4 Mtpa saleable coal dependant on CoAL's adopted development and capital expenditure strategy. As at 28 September 2012, Vele had JORC resources of 362.5Mt including 24.2 Mt of Proven reserves and 301.4Mt of Probable reserves.

Product evaluation and washability tests indicate that both a semi-soft coking coal and thermal coal can be produced simultaneously at Vele. Management have advised that various additions to the Vele processing plant will be undertaken in order to simultaneously produce both products, which will enhance the operational and financial performance of the project.

Mooiplaats Colliery

CoAL owns a 100 percent interest in the Mooiplaats colliery (Mooiplaats), located adjacent to Eskom Holding Limited's Camden power station, near Ermelo in the Mpumalanga province. As at 28 September 2012, Mooiplaats had remaining JORC resources of 45.1Mt, including 30.1Mt of Proven Reserves. Five major coal seams are present within the mining area, however the Technical Specialist considers that four of these seams are uneconomical.

During FY12, Mooiplaats produced 1.2Mt of thermal coal through underground operations, up from 883kt in the year ended 30 June 2011 (FY11), following transition to an owner managed project and identifying potential improvements in the mining process targeting higher production.

Mooiplaats includes a coal processing plant, which services both Mooiplaats and third party coal. Coal processing decreased marginally to 1.4Mt in FY12 from 1.5Mt in FY11 due to a reduction in the availability of third party coal.

Overall the Mooiplaats operations were unprofitable during FY12 due to pressure on operating margins that CoAL management has attributed to weak coal prices. Subsequent to FY12 CoAL management has pointed to labour strike action as further pressure on operating margins. CoAL management is considering options including partnerships and joint ventures with interested parties in order to unlock further value in the colliery or processing plant assets.

Woestalleen Complex

The Woestalleen Complex is made up of the Vuna Colliery and three beneficiation plants (Woestalleen Wash Plant), located near Middleburg in the Mpumalanga coalfields, as well as the Hartogshoop and Klipbank projects which the Technical Specialist considers are effectively mined out and no longer contain material coal assets.

CoAL, through its 100 percent owned subsidiary NuCoal Mining Proprietary Limited (NuCoAL), currently owns 49 percent of Vuna Mining, the holder of the NOMR for the Vuna Colliery. The Company has effective control of the Vuna Colliery through a management and coal purchase agreement between NuCoal and Vuna Mining. CoAL acts as mine operator and technical partner to the colliery. As at 28 September 2012, Vuna had remaining Proven reserves of 1.4Mt which are expected to be depleted by April 2013. Total ROM coal from the Vuna Colliery for FY12 was 3.5Mt. All coal produced is transported by truck to the Woestalleen Wash Plant.

The Woestalleen Wash Plant has been operational for over 30 years and has the capacity to treat 350Kt per month, with a total of 3.32Mt processed during FY12. The Woestalleen Wash Plant often treats third party coal in order to meet this target in instances where Vuna Colliery production levels result in excess capacity. Given the Vuna Colliery's approaching depletion, CoAL is evaluating strategies such as expanding the processing of third party to extend the Woestalleen Wash Plant's life. We note CoAL management have advised washing will continue after Vuna is depleted with the reprocessing of discard dumps.

CoAL's Mineral assets are discussed in further detail in the Technical Specialist report, which is included at Appendix 6 to the report.

8.2 Historical Financial Performance

CoAL's audited historical financial performance for FY11 and FY12 are summarised in the table below.

Table 4: Summary of CoAL's historical financial performance

	Audited year ended 30 June 11 USD'000	**Audited year ended 30 June 12 USD'000**
Revenue	261,425	243,842
Cost of sales	(223,483)	(210,429)
Gross profit	**37,942**	**33,413**
Employee benefits expense	(21,362)	(35,690)
Take or pay port obligation	-	(1,570)
Operating lease expenses	(1,874)	(1,449)
Goodwill written off	-	(1,191)
Impairment reversals/(losses)	(97,400)	324
Other gains/(losses)	(498)	412
Foreign exchange losses	(29,923)	(48,871)
Other income	-	7,984
Other expenses	(26,134)	(32,067)
EBITDA[1]	**(139,249)**	**(78,705)**
Depreciation and amortisation	(79,521)	(70,000)
EBIT[2]	**(218,770)**	**(148,705)**
Finance income	2,486	1,128
Finance costs	(1,822)	(2,974)
Loss before income tax	**(218,106)**	**(150,551)**
Income tax credit / (charge)	(897)	11,643
Net loss for the year	**(219,003)**	**(138,908)**
Other comprehensive income		
Exchange differences on translating foreign operations	119,470	(21,051)
Total comprehensive loss for the year	**(99,533)**	**(159,959)**
Weighted average ordinary shares on issue - 000s	*530,681*	*614,596*
Loss per share – cents[3]	*(41.0)*	*(23.0)*

Notes:
1. EBITDA is earnings before interest, tax, depreciation and amortisation
2. EBIT is earnings before interest and tax
3. Basic earnings per share is calculated by dividing net earnings for the year attributable to members of the parent entity by the weighted average number of ordinary shares outstanding during the year
4. Figures may not add exactly due to rounding

Source: CoAL 30 June 2012 Annual Report

We make the following observations in relation to CoAL's financial performance for FY12:

- Overall revenue decreased by 6.7 percent in FY12. This is attributable to a decrease in other revenue items as coal sales income grew by 5.8 percent to $242.5 million, on a variation of the sales mix of thermal coal sold (overall thermal coal sales volumes decreased 2 percent). CoAL management advised FY12 revenue was affected by a 27 percent decline in export coal spot prices. With the disposal of the non-core NiMag Group alloy producer during the year, $nil (FY2011: $31.2 million) was reported as Other Revenue in the FY12 year.

- Employee benefits expense increased by $14.3 million, largely due to the transition of Mooiplaats to an owner operated asset resulting in a portion of the labour cost previously incorporated as part of the contracting rates per ROM tonne reflected as a direct charge from 1 July 2011.
- Impairment reversals relate to the reversal of FY11's impairment of Mooiplaats property, plant and equipment as the result of a reassessment of the prior year charge. This was offset by the impairment of Holfontein Investments Proprietary Limited, owner of a small development project, which was written down to a carrying value of $1 due to a delay by the purchasers in arranging project funding. The reinstatement of the sale agreement is being renegotiated.
- FY12 foreign exchange losses are comprised of $47.0 million in unrealised losses and $1.9 million of realised losses. The unrealised foreign exchange losses are as a result of the South African rand weakening against the United States dollar and the year on year balance sheet revaluation of the shareholder loan accounts.
- Other income for FY12 includes proceeds from the disposal of the NiMag Group for approximately $6.5 million.

We note in the FY12 Financial Statements, the Auditors added an emphasis of matter indicating that a material uncertainty exists in relation CoAL continuing as a going concern due to factors including FY12's operating loss and net cash outflows from operating and investing activities.

8.3 Historical Financial Position

CoAL's historical financial position as at each of 30 June 2011 and 30 June 2012 are summarised in the table below:

Table 5: Summary of CoAL's historical financial position

	Audited year ended 30 June 11 USD'000	Audited year ended 30 June 12 USD'000
Cash and cash equivalents	22,761	19,523
Inventories	23,122	22,058
Trade and other receivables	44,734	25,968
Total current assets	**90,617**	**67,549**
Development, exploration and evaluation expenditure	195,848	283,486
Property, plant and equipment	218,258	141,641
Intangible assets	20,800	18,757
Other receivables	12,800	13,811
Other financial assets	13,594	13,173
Restricted cash	13,323	11,976
Deferred tax assets	4,171	3,444
Total non-current assets	**478,794**	**486,288**
Assets classified as held for sale	22,268	-
Total assets	**591,679**	**553,837**

	Audited year ended 30 June 11 USD'000	Audited year ended 30 June 12 USD'000
Trade and other payables	73,590	72,441
Borrowings	38,631	49,063
Provisions	2,481	1,475
Current tax liabilities	3,474	155
Total current liabilities	**118,176**	**123,134**
Contingent consideration	-	30,000
Borrowings	1,720	66
Provisions	18,714	16,916
Deferred tax liabilities	19,435	6,454
Total non-current liabilities	**39,869**	**53,436**
Liabilities classified as held for sale	2,843	-
Total liabilities	**160,888**	**176,570**
Net assets	**430,791**	**377,267**
Notes:		
1. Numbers may not add exactly due to rounding		

Source: CoAL 30 June 2012 Annual Report

We make the following observations in relation to CoAL's financial position as at 30 June 2012:

- Cash and cash equivalents decreased from $22.8 million as at 30 June 2011 to $19.5 million as at 30 June 2012. For further details, please refer to Section 8.4.
- Restricted cash comprises cash balances held on behalf of subsidiary companies in respect of rehabilitation guarantees issued to the South African Department of Mineral Resources (DMR).
- Development, exploration and evaluation expenditure increased by $87.6 million as at 30 June 2012, largely attributable to a $75.6 million increase in exploration and evaluation assets through business combinations (largely the Chapudi Acquisition).
- The carrying balance of property, plant and equipment decreased by $76.6 million as at 30 June 2012. $10.7 million in additions and $15.6 million in post exchange difference impairment reversals were offset by $52.4 million in exchange losses and $50.6 million in amortisation and depreciation.
- Other receivables relate principally to the carrying amount ($11.2 million) of a terminal development loan made to the port operator of the Matola Terminal, Grindrod Trading and Shipping Limited, in order to increase throughput capacity, of which CoAL received approximately an additional allocation of 2Mtpa (Matola Terminal Agreements). The remainder is made up of the delayed receipt of a portion the consideration from the divestment of the NiMag Group ($2.6 million).
- Intangible assets ($18.8 million) amount is the adjusted value of a $20 million payment made as part of the Matola Terminal Agreements. The adjustment is due to the change in reporting currency from AUD to USD. This agreement commenced in January 2009 for a period of 5 years, under which CoAL secured 1Mtpa of port capacity. As at 25 February 2011 the terms were re-negotiated to increase CoAL's available capacity to 3Mtpa until 1 January 2016 after which CoAL has the right to

renew its agreement with the port operators at the end of the initial term for 2 successive periods of 5 years and a period of 2 years ending 31 December 2028. CoAL was also granted an option to participate in any future expansion of the terminal.

- Assets held for sale reduced to nil as at 30 June 2012 with the disposal of the NiMag Group and impairment of Holfontein Investments Proprietary Limited (as discussed in Section 8.2).
- Provisions relate principally to employee related and rehabilitation expenses.
- A total of $106.2 million was added to CoAL's balance sheet through capital raisings during FY12.

8.4 Statement of cash flows

CoAL's audited historical cash flows for FY11 and FY12 are summarised in the table below.

Table 6: Summary of CoAL's historical cash flows

	Audited year ended 30 June 11 USD'000	Audited year ended 30 June 12 USD'000
Receipts from customers	302,885	247,312
Payments to suppliers and employees	(305,412)	(264,024)
Cash generated from operations	**(2,527)**	**(16,712)**
Net interest received / (paid)	664	(565)
Incomes taxes paid	(374)	(3,139)
Net cash used in operating activities	**(2,237)**	**(20,416)**
Net Payments for property, plant and equipment	(33,296)	(10,129)
Increase in exploration and development assets	(40,670)	(40,778)
Acquisitions through business combinations	-	(33,169)
Cash acquired on business acquisition	-	227
(Increase)/ decrease in other financial assets	5,058	(2,308)
Sale of NiMag Pty Ltd	-	3,935
Decrease in other receivables	1,600	1,600
Increase in restricted cash	(1,188)	(1,040)
Cash classified as held for sales	(1,528)	-
Net cash used in investing activities	**(70,024)**	**(81,662)**
Repayment of working capital facility	(20,000)	-
Increase in export trade finance facility	32,500	-
Finance lease repayments	(4,545)	(2,973)
(Decrease)/increase in loans payable	2,644	(670)
Proceeds from the issue of shares (net of issuing costs)	309	106,234
Net cash generated by financing activities	**10,908**	**102,591**
Net (decrease)/increase in cash and cash equivalents	**(61,353)**	**513**
Net foreign exchange differences	12,060	(3,751)
Cash and cash equivalents at beginning of the year	72,054	22,761
Cash and cash equivalents at the end of the year	**22,761**	**19,523**
Notes:		
1. Numbers may not add exactly due to rounding		

Source: CoAL 30 June 2012 Annual Report

We make the following observations in respect of CoAL's historical cash flows:

- During FY12, CoAL experienced negative operating cash flows of $20.4 million primarily due to the reduction of coal prices and the regulatory restrictions placed on CoAL at Vele.
- CoAL recorded negative investment cash flows of $81.7 million during FY12 primarily due to the increase in exploration expenditure on existing projects, and the acquisition of the Chapudi portfolio from Rio Tinto and Kwezi Mining Pty Ltd.
- Positive net financing cash flows of $102.6 million through equity raisings.

8.5 Taxation

CoAL's available tax losses as at 28 September 2012 are summarised in the table below:

Table 7: CoAL's available tax losses

Unredeemed capex			
USD'000	**Jun-11**	**Jun-12**	**Sep-12**
Baobab (Makhado Project)	32,383	51,135	53,323
Limpopo (Vele Colliery)	101,489	139,292	144,287
Langcarel (Mooiplaats Colliery)	173,826	168,941	177,486
Assessed loss			
USD'000	**Jun-11**	**Jun-12**	**Sep-12**
NuCoal (Woestalleen Colliery)	-	4,029.2	2,424.2

Source: CoAL management

8.6 Dividends and franking credits

CoAL has not paid dividends in the past and currently has no franking credits available to it.

8.7 Commitments

Purchase agreements

CoAL is currently contracted into a "take or pay" agreement for throughput capacity at the Matola Terminal in Maputo, Mozambique. The port has a design capacity of 6.0Mtpa and under this agreement, CoAL has access to 3.0Mtpa of throughput capacity against which it is required to deliver or pay for 75 percent (2.25Mtpa) of this volume based on the port operating at full capacity or such pro-rata amount as relevant. As at 30 June 2012, based on take or pay obligation calculated on 2.25Mtpa with no coal delivered through the terminal, CoAL's maximum obligation for financial year ending 30 June 2013 (FY13) is $21.6 million (i.e. assuming no throughput).

Export trade facility agreement

CoAL, through its wholly owned subsidiary Langcarel Proprietary Limited (Langcarel), utilises a 30 month revolving thermal coal pre-export trade finance facility for up to $50.0 million through Deutsche Bank (Amsterdam) that expires in October 2013. CoAL and its subsidiaries, NuCoal and Woestalleen Colliery Proprietary Limited, act as guarantors of Langcarel's obligations under the facility agreement. As at 30 June 2012, the facility was drawn to $32.5 million and 30 September 2012 to $37.5 million, with further draws prohibited based on the breach of the equity covenant at the latest measurement date. The total facility amount of $50.0 million reduces by 1/12th per month commencing on 23 October 2013, with the repayment of capital commencing January 2013.

NOMR Commitments

Subsidiaries of CoAL have financial commitments in terms of NOMRs granted by DMR. The commitments are based on the revenue generated by collieries during the financial year and /or quantities of coal sold by the colliery during the financial year.

8.8 Litigation

CoAL is currently involved in a number of litigation matters, which represent contingent liabilities. These are outlined below:

- Ferret Mining and Environmental Services Proprietary Limited (Ferret) has made a claim that RH Boer, former managing director of Ferret, unlawfully disposed of a 26 percent shareholding in Mooiplaats Mining Limited (which owns 100 percent of the shares in Langcarel, the holder of the NOMR for the Mooiplaats Colliery) to JA Nel. Ferret is claiming restitution to it of 26 percent of the issued share capital in Mooiplaats Mining Limited. CoAL may be entitled to a counter-claim depending on the outcome of this litigation of $13.5 million, being the purchase price paid for the 26 percent of shares in Mooiplaats Mining Limited. CoAL has approached Ferret with regard to the resolution of the claim and CoAL is of the view that the probabilities of Ferret continuing to pursue the claim are low.

- Motjoli Resources Proprietary Limited and Motjoli Resources Advisory Services CC have made a claim they did not receive full payment for consulting work provided to CoAL and JA Nel in relation the Mooiplaats Mining Limited acquisition. The claim is that 4.75 million paid up ordinary shares in CoAL are still to be paid, or in lieu of these an amount of $11.5 million with interest. This matter has been referred to arbitration and CoAL is of the view that the probabilities of the success of the claim against it are low as CoAL has performed its contracted obligations by issuing the shares.

- Envicoal Proprietary Limited has launched arbitration proceedings against NuCoal, claiming damages of up to $13 million in relation to a failure to deliver coal as prescribed in the terms of agreements concluded between the companies. The claim is being defended and NuCoal is of the view that probabilities of success of the claim by Envicoal in the arbitration scheduled for early 2013, are low.

In addition to the above litigation matters, CoAL management has advised of various legal matters and commercial matters not disclosed in CoAL's financial statements. These are outlined below:

- Anker Mining and Langcarel are currently in a dispute over a double granting on a prospect right adjacent to Mooiplaats. Settlement discussions have been initiated by CoAL.
- CoAL needs to obtain access under the prospecting rights to the Akkerland properties (Lukin and Salaita) as soon as possible for purposes of finalising non critical prospecting for the Makhado Project. A court action has been commenced to obtain access under prospecting rights. Notwithstanding this, negotiations with Akkerland are continuing and CoAL has engaged Akkerland with a view to acquisition of the properties. Should these negotiations be unsuccessful CoAL will rely on its rights in terms of the NOMR to access the properties for mining purposes.

8.9 Share capital and ownership

As at 30 September 2012, CoAL had approximately 801.0 million ordinary shares on issue. The Company's top ten shareholders as at 30 September 2012 are summarised in the table below.

Table 8: Summary of CoAL's top ten shareholders

Shareholder	Number of shares held	% of issued capital
M & G Investment Management Ltd.	160,128,850	19.99%
ArcelorMittal S.A.	126,133,423	15.75%
Africa Management Limited	111,100,959	13.87%
Capital Research Global Investors	55,734,459	6.96%
Investec Limited	30,939,744	3.86%
Vitol Energy (Bermuda), Ltd.	24,417,594	3.05%
Pictet & Cie - Custodian	19,013,517	2.37%
Public Investment Corporation Limited	9,924,550	1.24%
GCM Resources PLC	9,343,190	1.17%
Skagen AS	9,214,414	1.15%
Total number of share held by the top 10 shareholders	**525,010,956**	**69.41%**
Other shareholders	275,940,078	30.59%
Total number of shares on issue	**800,951,034**	**100%**

Source: CoAL Share Register Analysis 30 September 2012

Substantial shareholder notices have been received by CoAL as set out below:

Table 9: Summary of substantial shareholder notices

Shareholder	Date of notice	Number of shares held	% of issued capital[1]
M&G Investment Funds[2]	14 September 2012	160,128,850	19.99%
The Capital Group Companies, Inc	15 November 2010	33,325,000	6.28%
African Global Capital Holdings, Ltd.	28 July 2010	74,453,512	14.03%
ArcelorMittal South Africa	7 April 2009	126,133,423	15.70%

Notes:

1. Current shareholdings may differ from percentage holdings disclosed in substantial shareholder notices as a result of share issues subsequent to the date of the relevant notice.
2. "M&G Investment Funds" is comprised of M&G Investment Funds, M&G Investment Management Limited, M&G Limited, M&G Group Limited, M&G Securities Limited and Prudential plc.

8.10 Unlisted share options over unissued shares

CoAL currently has unlisted options over 62.4 million shares on issue, which have various expiry dates as summarised in the table below. No amounts are paid or payable by the recipient on receipt of the options. The options hold no voting or dividend rights and are not transferrable. Upon exercise of the options, the ordinary shares received rank equally with existing ordinary shares. We note that in addition to the options set out below, 3.5 million director options were granted under Resolutions 6 and 7 of the CoAL Annual General Meeting held 29 November 2012. These options were issued with an exercise price of £0.25 and expiration date of 30 November 2015.

Table 10: Summary of unlisted share options

Number	Expiration date	Exercise price
Director options		
5,000,000	30 November 2014	A$2.74
2,500,000	9 November 2015	A$1.20
BBBEE[1] Options		
50,000,000[2]	1 November 2014	£0.60
Employee Options		
818,500	30 June 2014	A$1.90
1,441,061	30 September 2015	A$1.40
2,670,000	14 February 2017	ZAR7.60

Notes:

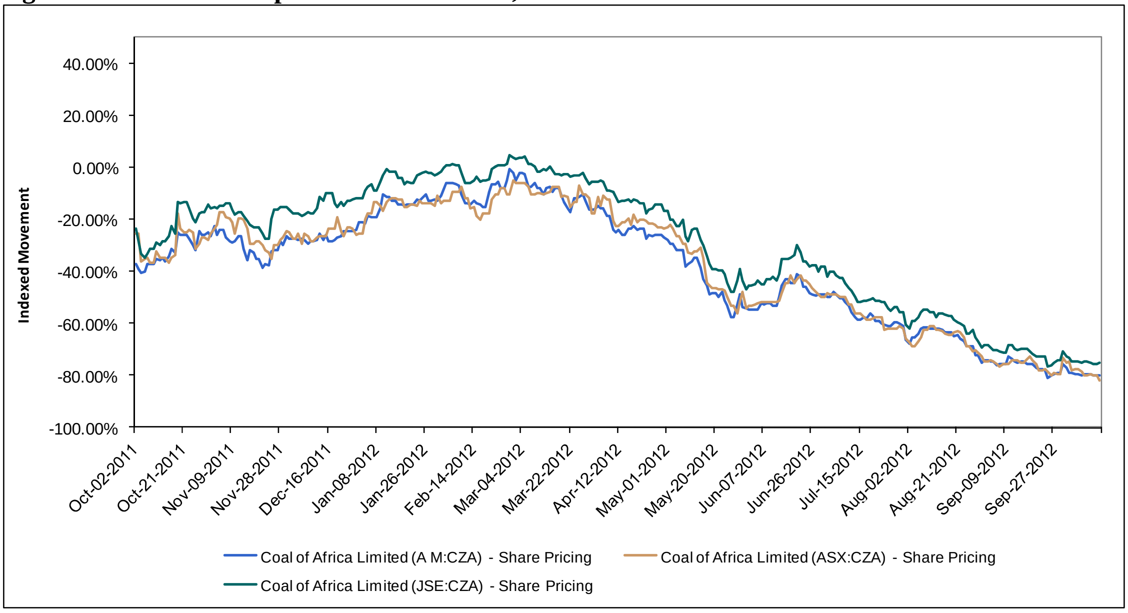
1. Broad Based Black Economic Empowerment
2. Held through two options to subscribe for a total of 50 million ordinary shares for 60 pence each between 1 November 2010 and 1 November 2014 as approved by shareholders on 22 April 2010.

Source: CoAL 30 June 2012 Annual Report, CoAL management

8.11 Share price and volume trading history

CoAL is a triple listed entity, trading on the ASX, JSE and AIM. Given CoAL's shares have, albeit thinly traded, the largest level of liquidity on AIM, we have had particular regard to the trading performance of the Company's shares on this bourse. We have analysed the respective daily closing share prices of CoAL on each exchange and do not believe that any material mispricing exists across exchanges. CoAL's daily closing share price on each exchange over the 12 months to the date of announcement of the Proposed Transaction, are set out in the chart below.

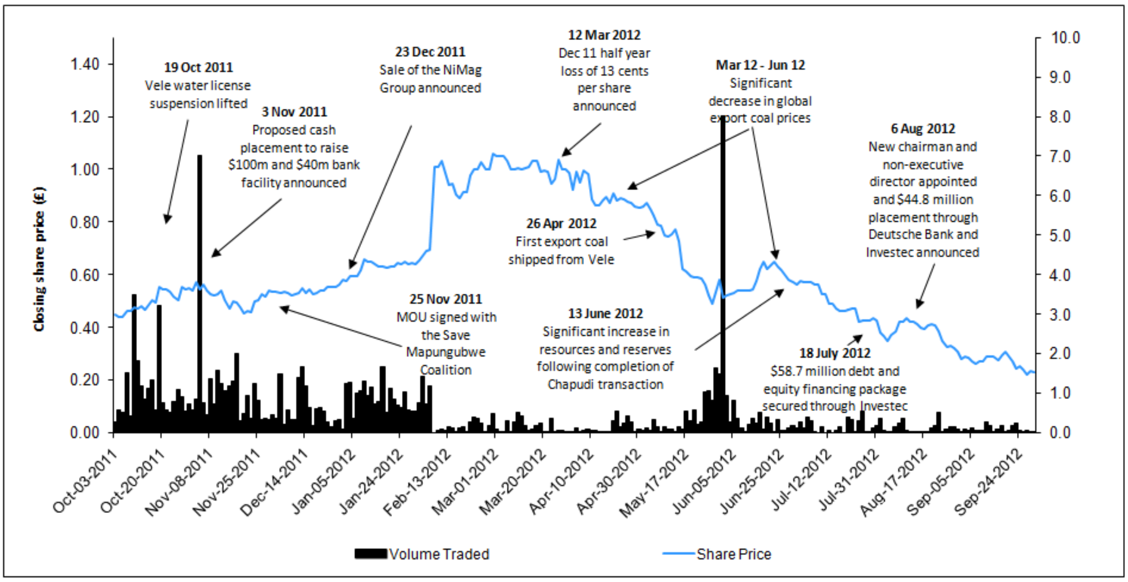
Figure 2: CoAL's share price across the ASX, JSE and AIM



Source: Capital IQ

CoAL's daily closing share price on AIM over the 12 months to the date of announcement of the Proposed Transaction, along with the daily volume of shares traded on AIM over that period are set out in the chart below.

Figure 3: CoAL's daily closing price and volume of shares traded on AIM



Source: Capital IQ, KPMG Corporate Finance analysis and ASX announcements

As illustrated in the chart above, CoAL's closing share price has generally trended down over the period since April 2012.

Other than normal quarterly and half yearly reporting, other announcements by CoAL in the 12 months to 28 September 2012 that may have had an impact on its recent share price include:

- 3 November 2011: Proposed cash placement to raise $100 million and $40 million bank facility announced.
- 13 June 2012: Significant increase in resources and reserves following the completion of the Chapudi Acquisition.
- 18 July and 6 August 2012: Significant financing packages secured.
- 6 August 2012: New chairman and non-executive director appointed to the CoAL board of directors.

Further details in relation to all announcements made by CoAL to ASX can be obtained from either CoAL's website or ASX's website (www.asx.com.au).

We note that downward pressure existed on coal prices and subsequently the share price of coal companies through the analysed period, however as illustrated in the figure below, CoAL's share price underperformed against both the Basic Resource Index and the AIM All-Share Index over the 12 month period prior to 28 September 2012.

Figure 4: CoAL's relative performance

Source: Capital IQ

8.12 Trading liquidity

An analysis of the volume of trading in CoAL's shares on each of the ASX, JSE and AIM in the 12 month period to the last trading day prior to the announcement (28 September 2012) of the Proposed Transaction on 1 October 2012 is set out below. For comparability, all share prices have been presented in GBP. Each daily share price was converted at the relevant spot exchange rate for the day, sourced from Capital IQ. The Volume Weighted Average Price (VWAP) is calculated as the average price for the period, weighted by the volume of trades at that price.

Table 11: CoAL's trading liquidity analysis one year prior to 28 September 2012

Period up to and including 28-Sep-12	Share price (low) £	Share price (high) £	VWAP £	Cumulative volume million	As a % of total issued capital
ASX					
1 day	0.15	0.15	0.15	0.02	0.0%
1 week	0.14	0.16	0.15	0.19	0.0%
1 month	0.14	0.25	0.18	2.88	0.4%
3 months	0.14	0.38	0.27	7.96	1.0%
6 months	0.14	0.64	0.35	32.96	4.1%
12 months	0.14	0.72	0.44	51.65	6.4%
JSE					
1 day	0.16	0.16	0.15	2.17	0.3%
1 week	0.14	0.16	0.15	12.17	1.5%
1 month	0.14	0.24	0.16	22.88	2.9%
3 months	0.14	0.40	0.24	56.18	7.0%
6 months	0.14	0.64	0.32	94.39	11.8%
12 months	0.14	0.72	0.43	166.39	20.8%
AIM					
1 day	0.15	0.15	0.15	11.46	1.4%
1 week	0.14	0.16	0.15	42.64	5.3%
1 month	0.14	0.24	0.17	90.76	11.3%
3 months	0.14	0.38	0.19	113.18	14.1%
6 months	0.14	0.63	0.28	174.51	21.8%
12 months	0.14	0.73	0.40	292.09	36.5%

Source: Capital IQ and KPMG Corporate Finance analysis

CoAL's shares on the ASX, JSE and AIM have, prima facie, exhibited low liquidity in recent times, with only approximately 63.7 percent of total shares on issue traded across all three exchanges over the 12 months prior to the announcement of the Proposed Transaction**.** The highest liquidity is exhibited on AIM with average daily traded volumes over 12 months to 28 September 2012 of approximately 0.2 million, 0.7 million, 1.1 million shares for each of the ASX, JSE and AIM respectively.

Table 12: CoAL's trading liquidity analysis post 28 September 2012

Period from 28 September 2012 to 7 December 2012	Share price (low) £	Share price (high) £	VWAP £	Cumulative volume million	As a % of total issued capital
ASX	0.11	0.19	0.14	4.37	0.5%
JSE	0.12	0.18	0.14	25.92	3.2%
AIM	0.12	0.18	0.15	84.69	10.6%

Source: Capital IQ and KPMG Corporate Finance analysis

9 Profile of HEI and BHE

In the event that the Proposed Transaction is approved, BHE will become CoAL's largest shareholder, increasing its current ownership interest from 0 percent to approximately 23.6 percent (assuming the Initial Placement shares are subscribed for at £0.25 per share) immediately following completion of both tranches of the Proposed Transaction. CoAL has undertaken to use reasonable endeavours to facilitate the appointment of two BHE nominees to the Board of CoAL.

9.1 Corporate background

HEI is a wholly owned subsidiary of BHE, incorporated in Hong Kong in 2011. As at 28 September 2012, HEI had not carried out any business activities.

BHE is a state-owned, listed coal producer based in Beijing and is a constituent of the SSE180 index and the SSE composite index. The company was founded in 2002 by a consortium of 5 entities, which remain significant shareholders in BHE, as described below:

Table 13: Major shareholders of BHE as at 30 September 2012

Shareholder	Description	Ownership interest
Beijing JinMei Group Co., Ltd (Co-Founder)	A large state-owned entity.	62.30%
Minmetals Development Co., Ltd (MinMetals)(Co-Founder)	A large diversified mining company, also listed on the SSE and partially state-owned.	1.93%
Shougang Corporation (Shougan)(Co-Founder),	A large state-owned steel manufacturing company.	1.86%
China Coal Energy Company Limited (China Coal) (Co-Founder	A large coal mining company, listed in Hong Kong and partially state-owned.	1.86%
China Coal Research Institute (CCRI)	A wholly state-owned entity servicing the coal industry	0.19%
N/a	Investment funds and banking institutions	3.92%
N/a	Other members of the public	27.94%
Total		**100.00%**

BHE is engaged in mining, washing, export and sales of coal products. BHE exports 2 million tonnes of anthracite products annually and is the largest exporter of anthracite coal from China. BHE's products are principally used in metallurgy, electric power, chemical engineering, construction materials and other industrial sectors.

BHE holds interests in coal mines, both in development and operating. Of the three mines BHE holds interests in within Inner Mongolia, the Hongqingliang mine and Bayannao mine are under construction and the Gaojialiang mine is in operation. The annual production for the Gaojialiang Coal Mine is 6Mt. The Munchengjian, Daanshan and Changgouyu mines in West Beijing produce anthracite at a rate of 5.2Mtpa. BHE's total production is expected to exceed 20Mtpa in the future.

BHE is also engaged in technology development, consultation, transfer, introduction and training.

9.2 Review of operations

Summary of recent financial performance

For the 6 months ended 30 June 2012, BHE recorded consolidated revenue from operations of 3,687.1 million Chinese Renminbi (CNY) ($580.1 million[7]) and CNY6,950.7 million ($1,102.6 million[8]) for the year ended 31 December 2011.

Consolidated profit after tax attributable to members totalled CNY674.1 million ($106.0 million) for the 6 months ended 30 June 2012 and CNY1,301.5 million ($206.9 million) for full year 31 December 2011.

Summary of financial position

A summary of BHE's consolidated financial positions as at 31 December 2011 is set out below. In, addition, BHE has advised that as of 30 June 2012 BHE had total assets of CNY10,902.0 million ($1,715.1 million) in total assets and total shareholders' equity of CNY6,797.0 million ($1,069.3 million).

Table 14: Summary of BHE's historical financial position

	Year ended 31 December 2011 CNY Millions
Cash and cash equivalents	2,324
Accounts receivable	272
Other receivables	21
Notes receivable	589
Inventory	473
Other current assets	271
Current assets	**3,949**
Net property, plant & equipment	3,020
Long-term investments	1,146
Other intangibles	2,599

[7] Using a 30 June 2012 spot USD:CNY rate of 6.3565 (Capital IQ)

[8] Using a 31 December 2011 spot USD:CNY rate of 6.3041 (Capital IQ)

	Year ended 31 December 2011 CNY Millions
Deferred tax assets	46
Non-current assets	**6,811**
Total Assets	**10,760**
Accounts payable	652
Accrued expenses	124
Short-term borrowings	840
Current portion of long-term debt	12
Current income taxes payable	59
Other current liabilities	1,311
Current liabilities	**2,998**
Long-term debt	20
Unearned revenue	13
Total Liabilities	**3,031**
Net Assets	**7,730**
Minority shareholders' interest	1,347
Total shareholders' equity	**6,382**

Source: Capital IQ, BHE Audited Financial Statement as at 31 December 2011

10 Impact of the Proposed Transaction

10.1 Pro forma financial position of CoAL following completion of the Proposed Transaction

Management has advised CoAL's unaudited cash balance at 30 September 2012 totals $30.3 million. However, the pro forma balance sheet reflects the 30 June cash balance of $19.5 million adjusted for capital raisings post 30 June 2012 of $52.0 million, with $23.5 million being allocated against trade and other payables and borrowings, to provide pro forma cash of $48.0 million prior to the proceeds from the Proposed Transaction. We note this balance differs from the 30 September unaudited balance of $30.3 million due to payments and receipts for operating activities and net borrowings post 30 June 2012.

We make the following observations in relation to CoAL's pro forma financial position at 30 June 2012 based on information contained in the Notice of Meeting and Explanatory Memorandum:

- Cash and cash equivalents total $130.8 million, in comparison to total current liabilities of $90.0 million.
- CoAL currently has approximately 801.0 million ordinary fully paid shares on issue (including those shares issued as part of the July and August capital raisings), which will increase to approximately 1,048.4 million ordinary fully paid shares immediately following completion of the Proposed Transaction (assuming no exercise of CoAL options or share rights that are subject to performance conditions currently on issue).
- CoAL's pro forma net asset backing per share decreases from 53.6 cents to 49.8 cents immediately following completion of the Proposed Transaction (exclusive of CoAL's trading results and other

financing /investing activities to 30 September 2012), principally as a result of the issue price of £0.25 or approximately $0.40[9] per new CoAL share to be issued being lower than the current net asset backing per share.

10.2 Capital structure

CoAL currently has approximately 801.0 million fully paid ordinary shares. In the event that the Proposed Transaction is successfully completed, and assuming no further exercise of CoAL options in the period prior to the issue of Conditional Placement shares, and that the Initial Placement shares are subscribed for at £0.25 per share, non-associated shareholders will be diluted to approximately 76.4 percent of the issued capital in the expanded CoAL immediately following completion of the Proposed Transaction as shown in the table below.

Table 15: Pro forma capital structure

	BHE Millions	Non-associated shareholders Millions
Current shares on issue to BHE and non-associated shareholders	-	801.0
Shares to be issued under the Proposed Transaction[1]	247.4	-
Undiluted shares[1]	**247.4**	**801.0**
Undiluted voting interest[1]	**23.6%**	**76.4%**

Notes:

1. Assuming the Initial Placement share subscribed for at £0.25 per share.

Source: KPMG Corporate Finance analysis

10.3 BHE's intentions

BHE is looking to expand its investment in global coal mining and resources and to facilitate the formulation of a long term and mutually beneficial strategic partnership with an organisation familiar with the local rules, regulation and conditions that can manage development of coal assets through to production.

BHE has indicated that it has identified potential in CoAL and its management and accordingly, wishes to contribute significant capital to develop CoAL's assets in return for a material CoAL equity stake. Further, BHE is seeking a share of marketing rights for CoAL's product to introduce CoAL to its key Asian customers for the benefit of CoAL.

CoAL management has advised the Proposed Transaction represents BHE's first external investment and its intention going forward is to maintain a large minority shareholding in order to become comfortable with CoAL's assets and to facilitate the sharing of technical expertise and strategy. BHE may seek to invest further in the future but no formal discussions of this nature have taken place.

---

9 £0.25 per share translates to 40.3 US Cents 28 September 2012 spot exchange rate of 1.6123 sourced from Capital IQ.

For a further description of BHE's intentions post the Proposed Transaction, please refer to Section 3.3 of the Notice of Meeting and Explanatory Memorandum.

10.4 CoAL's board of directors

On completion of the Proposed Transaction, CoAL's board of directors will be reconstituted to include two directors nominated by BHE (BHE Nominees), as set out in Section 3.3(e) of the Notice of Meeting and Explanatory Memorandum, subject to CoAL's nomination committee being satisfied with the BHE Nominees' relevant coal experience and experience in the operations of BHE and BHE exercising its right to nominate directors.

CoAL has been advised that BHE has not identified, and is not in a position to provide details of, the BHE Nominees as at the date of this report. BHE does not expect to confirm who the nominees will be until much closer to the date of the allotment and issue of shares under the Conditional Placement.

Nine members make up the CoAL Board prior to the Proposed Transaction. As a result of the appointment of the BHE Nominees as additional directors following the Proposed Transaction, BHE will have two of the eleven director positions, which correlates with their expected shareholding.

10.5 Synergies and costs savings

While it is unlikely that any direct cost savings will be realised by CoAL as a result of the Proposed Transaction, BHE has indicated it may be willing to share its technological, marketing and financial strengths with CoAL. This intention for CoAL and BHE to actively co-operate going forward, as evidenced by the current Cooperation Agreement negotiations, may result in an acceleration of CoAL's exploration initiative as well as increased effectiveness in the mining of CoAL's operating projects, through improved technology provided by BHE. It is also intended to result in CoAL being able to leverage BHE's marketing network, providing an increased client base for CoAL's thermal products. Finally, BHE may be able to assist in securing the further funding required for the development of CoAL's projects on terms that may have not been available to CoAL as a stand-alone entity in its current form. CoAL management has advised it is difficult to quantify these benefits.

CoAL incurs corporate overheads in relation to managing its business and maintaining its operating assets. These costs have not been incorporated into the valuation of CoAL's mineral assets, and therefore it is necessary to deduct the present value of anticipated future management and administrative costs in relation to CoAL's operating assets from the value of the Company.

Consistent with ASIC requirements we have valued the equity of CoAL on a controlling basis. In our view potential cost savings exist to third party purchasers of CoAL on a controlling basis by the way of use of the purchasers existing corporate structures to minimise overheads. These savings will include the elimination of listing costs and of non Executive Director fees. We have also assumed a 10 percent saving in the remaining forecast corporate costs, due to savings in costs such as staff costs, audit fees, insurance fees and premises costs. These cost savings have been adjusted for when performing the present value calculation of corporate costs of CoAL to be deducted from the value of its mineral assets.

11 Valuation of CoAL

The principal assets of CoAL comprise its interests in the Operating Assets, Development Assets, and the Other Assets. Such assets have limited lives and future profitability and asset life depend upon factors that are inherently unpredictable.

In our experience, the most appropriate method for determining the value of companies similar to CoAL is on the basis of the fair market value of the underlying net assets, with the principal operating assets being valued using the Discounted Cash Flow (DCF) approach.

The DCF methodology has a strong theoretical basis, valuing a project on the net present value (NPV) of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital. This technique is particularly appropriate for start up companies and companies with a limited asset life, which is often the case with companies dependent upon depleting mineral resources. Application of this technique generally requires a 5-year minimum period of analysis. In addition, a sensitivity analysis for variations in key assumptions adopted needs to be performed.

We have used the audited net assets of CoAL as at 30 June 2012 as set out in Section 8.3 of this report as the basis for our valuation. We have also taken into account material post balance date transactions up to 28 September 2012, as set out in Section 10.1.

ASIC Regulatory Guides envisage the use by an independent expert of specialists when valuing specific assets. To assist us in the valuation of CoAL's assets, the Technical Specialist was retained to prepare the Technical Specialist's report which provides a valuation of CoAL's Development Assets and an assessment of the reasonableness of the technical, operating and capital assumptions for the Operating Assets.

In arriving at our range of values for a share in CoAL, we have placed reliance on the report prepared by the Technical Specialist.

The Technical Specialist's report was prepared in accordance with the requirements of the ValMin Code and is attached as Appendix 6 to this report.

CoAL management has also provided us with independent valuations of the CBM Assets and Holfontein as at 30 September 2012. Given the relative immateriality of these assets we have adopted these valuations as reasonable estimates of the fair market value of these assets.

KPMG Corporate Finance was responsible for the valuation of CoAL's Operating Assets. The values for the Operating Assets are based on the financial model prepared by CoAL management (Model). The Technical Specialist has reviewed the technical, operating and capital assumptions in the Model and concluded that these technical input assumptions are reasonable as at 28 September 2012. The Technical Specialist highlighted the following key risks in relation to these assumptions, which are discussed in more detail in the following section:

- The current increase in industrial action at South African mines would see a general increase in the labour related costs for mining operations.
- Adjustments to mining rates and coal available for extraction.

- Concerns over the level of sustaining capital expenditure allowed for in the cash flows.

KPMG Corporate Finance has performed sensitivity analysis and altered the base case valuation assumptions in relation to the above factors as recommended by the Technical Specialist.

KPMG Corporate Finance was responsible for determining the macro-economic inputs, taxation inputs and the discount rate inputs in determining the value of CoAL's Operating Assets.

Due to the various uncertainties inherent in the valuation process, the Technical Specialist has determined a range of values within which it considers the value of the Development Assets of CoAL to lie. The valuations ascribed by the Technical Specialist to the Development Assets have been adopted in our report as noted below.

Having regard to their materiality, other assets and liabilities of CoAL have been incorporated in our valuation at assessed values or book values unless noted otherwise later in this section.

11.1 Valuation summary

We have assessed the fair market value of the equity in CoAL as at 28 September 2012 (Valuation Date), inclusive of a full premium for control, to lie in the range of $433.4 million to $559.3 million. This equates to an implied fair market value per CoAL share, inclusive of a full premium for control, of between approximately 33.6 pence and 43.3 pence, based on the closing GBP:USD exchange rate of 1.6123 on the Valuation Date.

We have assessed the fair market value of CoAL by aggregating the estimated market value of CoAL's interests in mineral assets, adding the assessed value of other assets and, if appropriate, deducting any external borrowings and non-trading liabilities. The value of CoAL has been assessed on the basis of fair market value, that is, the value that would be negotiated between a knowledgeable and willing, but not anxious buyer, and a knowledgeable and willing, but not anxious seller, acting in an arm's length transaction, where both buyer and seller are fully informed.

When assessing the full underlying value of CoAL, we have considered those synergies and benefits that would be available to a pool of potential purchasers of CoAL. We have not included the value, if any, of special benefits that may be unique to BHE. Accordingly, our valuation of CoAL has been determined regardless of the bidder and any special benefits that may accrue to BHE have been considered separately.

Set out below is a summary of the range of fair market values at which CoAL's shares have been assessed.

Table 16: Summary of assessed fair market value of CoAL inclusive of a full premium for control

	Low USD'000	High USD'000
Development Assets	378,419	483,527
Operating Assets	145,268	160,723
Other Assets	8,876	15,501
Total mineral assets	**532,562**	**659,750**
Add – cash	30,319	30,319
Add – funds from the exercise of options[1]	-	-

	Low USD'000	High USD'000
Add – future loan to Rothe Investments (Pty) Ltd	10,366	13,461
Add – other net surplus assets/(liabilities)	(22,062)	(22,062)
Less – interest bearing liabilities	(39,751)	(39,751)
Less – Matola TCM Take or Pay Liability	(22,201)	(22,565)
Less – capitalised corporate overheads	(55,879)	(59,880)
Total equity value	**433,355**	**559,274**
Current shares on issue (000s)	800,951	800,951
"In the money" options (000s)[1]	-	-
Diluted number of shares on issue (000s)	**800,951**	**800,951**
Value per share, inclusive of a full premium for control - cents	**54.1**	**69.8**
GBP:USD exchange rate	1.6123	1.6123
Value per share, inclusive of a full premium for control - pence	**33.6**	**43.3**

Note

1. Given our range of undiluted values for a CoAL share, the 3.5 million options at £0.25 approved on 29 November 2012 (post the valuation date of 28 September 2012) are assumed to be exercised, resulting in an equity value in the range of $434.8 million to $560.7 million or 33.5 pence to 43.2 pence per share, on a fully diluted basis. Other than as discussed above, none of the options summarised in Section 8.10 are assumed to be exercised.
2. Effective valuation date is 28 September 2012

Source: KPMG Corporate Finance analysis, Technical Specialist's report

Our range of assessed fair market values for a CoAL share, inclusive of a full premium for control, of between 33.6 pence and 43.3 pence (AUD0.52 to AUD0.67) compares to a closing price for a CoAL share on the Valuation Date of 15.25 pence on the AIM (AUD 0.23 on the ASX), the closing price for a CoAL share on 7 December 2012 of 12.5 pence on the AIM (AUD0.19 on the ASX), and the unaudited pro forma net asset backing per share as at 30 June 2012 of 34.2 pence (AUD0.52).

The market capitalisation of CoAL as at 7 December 2012 is in the order of $159.7 million (AUD152.2 million) and immediately prior to the announcement of the Proposed Transaction was $191.1 million (AUD184.2 million), which compares to the unaudited pro forma net asset backing of CoAL at 30 June 2012 of $429.3 million[10]. In contrast, based on our valuation of CoAL's Operating Assets, and the Technical Specialist's report, we have ascribed a value of between $433.4 million and $559.3 million to the equity value of CoAL.

We believe the difference between our assessed value and CoAL's market capitalisation is largely due to the market's concerns around CoAL's ability to raise the capital it needs to continue to develop its assets. In addition, the difference may reflect that the market is more bearish than CoAL management and KPMG Corporate Finance in its assumptions in relation to, inter alia:

[10] Adjusted to include the September 2012 capital raised of $52.0 million, and repayment of $23.5 million to creditors post 30 June 2012

- Various macro economic and financial assumptions adopted by CoAL management and KPMG Corporate Finance, including:
  - The outlook for CoAL's future long-term commodity prices as adopted by KPMG Corporate Finance.
  - The appropriate discount rate to apply to forecast cash flows and, in particular, the specific project risk attaching to the Operating Assets.
- The ability of CoAL to improve operating cash flow at the Mooiplaats Colliery and successfully ramp-up its expansion at Vele Colliery.

The differential between the price for a CoAL share on its various markets, and our range of assessed values may also reflect the following additional factors:

- The market for CoAL shares is not deep and therefore may not be fully efficient.
- Our range of values represents the full underlying value of CoAL whereas trading on the AIM and ASX is in respect of portfolio interests. Application of a premium for control of between 25 percent and 40 percent implies a value closer to our range of assessed fair market values of between approximately 19.1 pence and 21.4 pence (A$0.29 to A$0.32) based on the closing trading price as at the Valuation Date for a CoAL share of 15.25 pence on the AIM (A$0.23 on the ASX).
- The fact that Exxaro Resources, one of the largest coal miners in South Africa, elected not to exercise its option over a 30 percent interest in the Makhado Project, being CoAL's flagship asset.
- The recent labour strikes within the general mining sector in South Africa giving rise to an uncertain industrial relations environment.
- CoAL has recorded negative operating cash flows over the last two fully reported financial years specifically relating to the Mooiplaats Colliery and Woestalleen Complex.

Our range of assessed fair market values also lies above the values recorded in the books of CoAL as at 30 June 2012, with this differential being largely attributable to:

- The value ascribed by CoAL to its mineral assets in its books as being approximately $425.1 million, which compares to our range of assessed fair market values of between $532.6 million and $659.8 million. This difference has arisen principally due to values carried in the books of CoAL representing property, plant & equipment and capitalised historical costs in accordance with Australian Accounting Standards, whereas our range of assessed values is based on current fair market values and therefore recognises the benefit of future cash flows, in-situ commodity values and other modifying factors.
- An increase in our range of assessed fair market values to reflect the future loan payable by Rothe Investments (Pty) Ltd (Rothe) for a 26 percent interest in the Chapudi Acquisition upon receipt of an NOMR, at which time CoAL will recognise a non controlling interest and a shareholder loan on their balance sheet.
- A reduction in our range of assessed fair market values to reflect the present value of future after-tax corporate overheads net of synergies discussed in Section 10.5 by $55.9 million to $59.9 million.

- A reduction in our range of assessed fair market values of $22.2 million to $22.6 million to reflect the present value of future after-tax take or pay liabilities relating to the Matola Terminal.
- Adjustments made to CoAL's cash balance of $10.8 million and borrowings of $4.3 million since 30 June 2012 to reflect the placement funds raised during September, net proceeds from borrowings, and trading results for the 3 months to 30 September 2012 as discussed in Section 10.1.
- Fair market value reduction to the intangible assets relating to CoAL's rights to throughput capacity at Matola Terminal, given that our base case valuation implies that CoAL will not require this additional throughput capacity.
- Fair market value reduction to the Matola Terminal development loan of $2.7 million to reflect the difference between the remaining principal, and the present value of the remaining instalments to be received, using a cost of debt of 9.1 percent.

We have also considered the following issues which we believe do not have an impact on our assessed value of CoAL's equity:

- There is a risk that CoAL will be required to relinquish a 26 percent holding in Mooiplaats Colliery in the event that Ferret is successful in its application over the shareholding. Although settlement negotiations are advanced, no agreement is currently in place over the disputed shareholding. CoAL management has advised that under any agreement, Ferret would be required to contribute its share of ongoing capital costs (and potentially historical capital costs, via a shareholder loan), and would not receive dividends until the repayment of the shareholder loan is satisfied. Given CoAL management's view on the low probability of Ferret being successful, we have not adjusted our valuation of Mooiplaats Colliery.
- The South African Department of Mineral Resources has double-granted the area over the Klipbank Farm, which forms part of the extension area of Mooiplaats. The dispute is required to be settled between the two parties, and CoAL is engaging through lawyers to this effect. The coal reserves from Klipbank Farm are included in the value of excess reserves for Mooiplaats Colliery, however there remains a risk that CoAL will incur a cost in order to settle the dispute. We do not expect that any costs to settle the dispute will be material to our conclusions.
- CoAL will be required to sell down 26 percent of the Makhado Project to a BBBEE partner prior to being granted a NOMR over the mining area. We have been advised that CoAL has commenced discussion around securing a BBBEE partner, however there is no binding agreement currently in place. Any transaction with a BBBEE partner would be undertaken at fair market value, and therefore will not impact upon our range of fair market values.

Development Assets

In forming our view as to the value of CoAL's interest in the Development Assets, we have relied upon the valuation prepared by the Technical Specialist. In arriving at its range of assessed values for the Development Assets, the Technical Specialist considered various valuation methodologies. An overview of the Technical Specialist's valuation results, adopted methodologies and assumptions in terms of assessed values, is set out below and discussed further in the Technical Specialist's report.

Valuation of Development Assets

The Technical Specialist has valued CoAL's interest in the Development Assets, based on the market approach, as lying in the range of ZAR3,146 million to ZAR4,020 million, with a preferred value of ZAR3,583 million, which we have converted into United States dollars based on the closing spot USD:ZAR exchange rate of 8.31 on the Valuation Date. A summary of the assessed values for the Development Assets at CoAL's interest are summarised in Table 17 below.

Table 17: Technical Specialist valuation summary – Development Assets

	%	Low ZARm	High ZARm
Chapudi Region			
Chapudi	74%	293	488
Chapudi West	74%	15	25
Wildebeesthoek	74%	24	39
Makhado Region			
Makhado	100%	2,087	2,431
Telema and Gray	100%	165	226
Generaal	74%	30	50
Mount Stuart	100%	22	33
Mopane Region			
Voorburg	74% - 100%	475	668
Jutland	74% - 100%	36	60
Valuation of Development Assets		**3,146**	**4,020**
USD:ZAR exchange rate		8.31	8.31
Valuation of Development Assets (USDm)		**378.42**	**483.53**

Source: KPMG Corporate Finance analysis, Technical Specialist's report

In assessing these values, the Technical Specialist has considered accepted methods for valuing mineral assets including the Cost Approach, based on historical acquisition costs and a multiple of exploration expenditure, and the Market Approach based on a value per unit of resource (ZAR/t) or value per unit area (ZAR/ha). Further details in relation to each of these assets and the valuation methodology adopted are set out in the Technical Specialist's report.

Operating Assets

In forming our view as to the value of the Operating Assets, we have relied upon the Model and the technical, operating and capital assumptions within the Model, as reviewed by the Technical Specialist. In arriving at our range of assessed values for the Operating Assets, we have adopted the DCF methodology as a primary valuation approach. An overview of our valuation results, adopted methodologies and assumptions in terms of assessed values, is set out below. The key technical, operating expenditure and capital expenditure assumptions are discussed further in the Technical Specialist's report.

Valuation of the Operating Assets

We have valued CoAL's 100 percent interest in the Operating Assets, on the basis of DCF analysis, as lying in the range of $145.3 million to $160.7 million. This is summarised in Table 18 below.

Table 18: Valuation of Operating Assets

	%	Low USD'000	High USD'000
Woestalleen	100%	(4,844)	(4,877)
Vele	100%	117,916	132,062
Mooiplaats	100%	32,197	33,538
Value of CoAL's Operating Assets		**145,268**	**160,723**

Source: KPMG Corporate Finance analysis, CoAL management

Key operational assumptions

The principal operational assumptions adopted in our valuation for the Operating Assets, as reviewed by the Technical Specialist, are summarised in Table 19 below.

Table 19: Key operating assumptions

	Unit	Woestalleen Complex	Vele Colliery	Mooiplaats Colliery
Mine life (LOM model)	Years	2	28	4
Mining rate per annum at full production	Mtpa	n/a[3]	2.7	1.5
Total run of mine tonnes	Mt	4.3[3]	72.5	4.9
Total saleable coal production	Mt	2.8	48.8	3.5
Average CHPP[1] yield	%	65.9	67.3	70.6
Total capital cost over life of mine[2]	ZARm	88.6[4]	429.5	159.7
Average cash operating cost[2]	ZAR/t[5]	336.5	431.4	631.6

Notes:

1. Coal handling and preparation plant
2. Stated in 2012 rand
3. Includes an additional 1.8Mt of discards processed over the remaining life of the asset
4. Predominately mine closure rehabilitation costs for Woestalleen.
5. Average cash operating costs calculated as total operating costs over life of mine divided by total saleable tonnes.
6. Numbers may not compute exactly due to rounding

Source: KPMG Corporate Finance analysis, CoAL management

The Technical Specialist has considered and reviewed CoAL management's operating assumptions and discussed them with CoAL management in the context of the projected operating capacity for the Operating Assets. The Technical Specialist has concluded that CoAL management's operational assumptions are reasonable as at the Valuation Date, and accordingly, we have relied upon the operational assumptions for the purposes of our valuation.

The Technical Specialist suggested we amend the Model to take account of the following issues as detailed in the Technical Specialist's report:

- Reduce the annual ROM production rate for Mooiplaats from 1.7Mtpa to 1.5Mtpa.
- Reduce the coal reserves for Vuna Colliery from 2.7Mt to 2.4Mt to be consistent with the coal reserves estimate detailed in the Technical Specialist's report.

Our assessed range of values takes into account the above adjustments recommended by the Technical Specialist. These adjustments had an overall negative impact on the NPV of the cash flows from the Operating Assets of approximately $8.5 million.

Further discussion regarding the operational assumptions adopted by CoAL management as reviewed by the Technical Specialist is contained in the Technical Specialist's report.

The Technical Specialist has provided us with an estimate of the value of existing reserves not reflected in the Model for the Operating Assets. Our assessed range of values is inclusive of the value attributed to these additional reserves. For Vele Colliery, we have assumed that the underground reserves will be accessed in 10 years, and the additional open cut reserves will be accessed at the end of the current life of mine plan. For Mooiplaats Colliery, we have assumed the excess reserves will be accessed at the end of the current life of mine plan.

Key economic and financial assumptions

Commodity prices

Commodity pricing assumptions adopted by KPMG Corporate Finance over the period to FY17 are summarised in the table below.

Table 20: Summary of commodity price assumptions

Coal price - USD/t (FOB)	FY13	FY14	FY15	FY16	FY17
Semi soft coking[1]	130.0	137.5	135.0	132.5	130.0
RB1 thermal[2]	96.0	102.0	106.0	107.0	108.0

Notes
1. 10% ash semi soft coking coal
2. 6,000 kcal/kg NCV

Source: Brokers' notes, various economic commentaries and KPMG Corporate Finance analysis

In order to determine appropriate commodity price assumptions KPMG Corporate Finance has had regard to coal price forecasts as published by various broking houses and economic commentators, and the prevailing forward curve for Richards Bay benchmark thermal coal prices. Our adopted coal prices are in nominal terms (i.e. including the effects of inflation) and the FY17 prices are assumed to remain constant in real terms.

The semi soft coking coal price was adopted for the coking coal product to be produced at Vele Colliery, while the RB1 thermal coal price was applied to export thermal coal both contracted and uncontracted with a net calorific value of 6,000kcal/kg. CoAL management has applied a price discount to the RB1 price of $2.60/t to reflect that Matola Terminal is less efficient in relation to cargo size and loading rates when compared with the Richards Bay Coal Terminal. The coal prices summarised in the table above are not inclusive of the Matola Terminal discount, however we have deducted this price discount from the RB1 thermal coal price in our valuation.

Exchange rates

The exchange rate assumptions adopted by KPMG Corporate Finance are summarised in the table below.

Table 21: Summary of exchange rate assumptions

	FY13	FY14	FY15	FY16	FY17
USD:ZAR	8.20	8.40	8.80	9.00	9.20

Source: Capital IQ, brokers' notes, various economic commentaries and KPMG Corporate Finance analysis

The USD:ZAR exchange rate is assumed to move post FY17 at a rate consistent with the difference in long-term inflation rates between South Africa and the United States such that purchasing power parity is maintained. In effect the USD:ZAR exchange rate is assumed to remain constant in real terms.

Forecast exchange rates have been assessed by us having regard to the prevailing spot exchange price (in the order of USD:ZAR 8.31), the prevailing forward exchange curve and also forecasts published by various broking houses and economic commentators.

Inflation

Inflation rate assumptions adopted by KPMG Corporate Finance are set out below.

Table 22: Summary of inflation assumptions

	FY13	FY14	FY15	FY16	FY17
United States	2.00%	2.10%	2.25%	2.30%	2.30%
South Africa	5.40%	5.20%	5.00%	4.75%	4.50%

Source: Capital IQ, brokers' notes, various economic commentaries and KPMG Corporate Finance analysis

South African and United States inflation was determined having regard to the forecasts of a range of brokers and economic commentators. Subsequent to FY17, the rate has been assumed to remain constant at 4.5% per annum for South Africa and 2.3% per annum for the United States.

Working capital

Trade debtors and trade creditors are assumed to be realised and replenished on an on-going basis over the life of the Operating Assets.

Revenue tax losses

We have included the benefit of the unredeemed capital expenditure and tax losses available to each of CoAL's operations. We note that the balance of unredeemed capital expenditure and tax losses for Mooiplaats Colliery is significant, resulting in nil tax payable over the life of mine.

Other assumptions

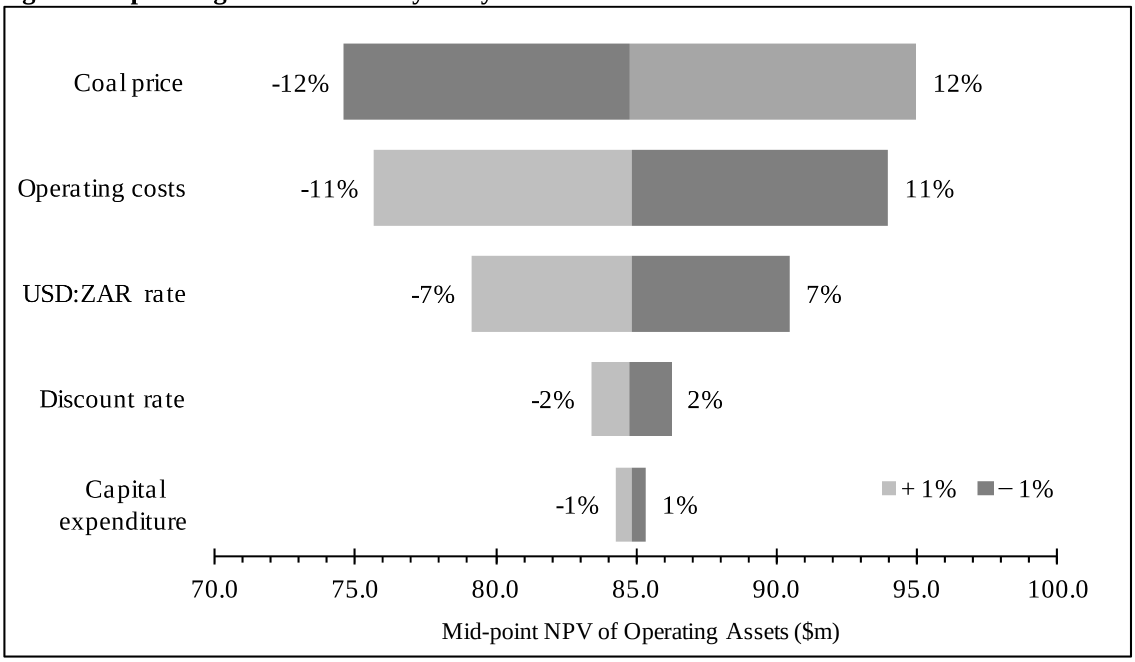
Other key financial and economic assumptions adopted by us in assessing the value of the Operating Assets include:

- A South African corporate tax rate at an average of 28 percent over the life of the mine. We have considered the impact of the South African withholding (WHT) tax regime, which became effective 1 April 2012, on the effective corporate tax rate that would be applicable to a range of international acquirers. We have concluded that an international investor could structure any acquisition of CoAL so as to minimise the impost of withholding tax. On this basis we have adopted a corporate tax rate of 28 percent.
- An ungeared, post tax nominal discount rate in the range of 14.0 percent to 15.0 percent per annum for Vele Colliery and Mooiplaats Colliery, and 12.0 percent to 13.0 percent for Woestalleen Complex. The basis for our calculation of discount rates is discussed at Appendix 3 to this report.

Sensitivity analysis

KPMG Corporate Finance has undertaken a sensitivity analysis around the mid-point base case valuation for the Operating Assets (excluding additional reserves) based on a range of operational, commercial, financial and other key assumptions the outcome of which is set out below.

Figure 5: Operating Assets sensitivity analysis



Source: KPMG Corporate Finance analysis

The sensitivity analysis indicates that the value of the Operating Assets is particularly sensitive to movements in commodity prices, operating costs and the exchange rate.

In addition to the above observations, the Technical Specialist suggested we perform sensitivity analysis in relation to the following issues:

- Increase operating costs by 1.0 percent to take into account the current increase in industrial action at South African mines, which would result in a general increase in the labour related costs for mining operations. The Technical Specialist noted a recent public announcement made by CoAL that certain on-site waged employees received a wage increase of 26 percent, which CoAL estimated the total effect translated to an increase of about 1.0 percent on Mooiplaats' total cost per saleable tonne of coal. We believe Figure 5 above summarises the effect of this scenario.
- Sustaining capital expenditure for Mooiplaats included in the Model was considered very low according to South African standards for owner operated mines. The Technical Specialist considered that sustaining capital expenditure should be estimated in the range of 5 percent to 15 percent of total operating costs. Adopting 5 percent would decrease the value of Mooiplaats Colliery by approximately $3.4 million. This does not materially alter our valuation conclusions.
- Sustaining capital expenditure for Vele Colliery should be estimated at a minimum of 5 percent of processing operating costs, given that mining and related services have been contracted to MCC Group. This would decrease the value of Vele Colliery by approximately $1.4 million. This does not materially alter our valuation conclusions.

Other Assets

In forming our view as to the value of CoAL's interest in the CBM Assets and Holfontein, we have considered the valuations prepared by independent valuers. Given the relative immateriality of these assets, we have adopted these valuations for the high end of our valuation range. The value of the CBM Assets was assessed at $2.25 million, while the value of Holfontein was assessed at ZAR110.2 million ($13.3 million). We adopted 50 percent of the value of Holfontein for the low end of our fair market value range to allow for potential delays in the sale of this asset.

Cash

We have adopted CoAL's cash and cash equivalents as at 30 September 2012 of $30.3 million for our valuation.

Borrowings

We have adopted CoAL's borrowings as at 30 September 2012 of $39.8 million as advised to us by CoAL management in our valuation.

Other assets/(liabilities)

The net operating assets included in our mineral asset valuation include property plant and equipment, development, exploration and evaluation expenditure, inventories, trade and other payables, restricted cash, trade and other payables, provisions, and deferred tax assets and liabilities.

Net assets not valued as part of CoAL's mineral assets comprise cash and sundry other assets and liabilities. Except as specifically noted below, having regard to their nature and quantum, these assets and liabilities have been incorporated in our valuation at net book values as at 30 June 2012. We have adopted net surplus liabilities of $22.1 million as summarised in Table 23 below:

Table 23: Summary of net surplus assets

	USD'000
Intangible assets	-
Present value of Matola Terminal development loan	8,547
NiMag loan	2,611
Other financial assets	10,423
Contingent consideration (Current)	(13,642)
Contingent consideration (Non-current)	(30,000)
Other net surplus assets/(liabilities)	**(22,062)**

Source: KPMG Corporate Finance analysis

In relation to the table above, we note:

- We have reduced the book value of CoAL's intangible assets relating to contracted throughput capacity at Matola Terminal, given that our base case valuation assumes that CoAL does not require this additional throughput capacity at Matola Terminal.
- We have reduced CoAL's Other Receivables (including the Matola Terminal interest-free development loan and the NiMag loan) as at 30 June 2012 of $13.8 million by $2.7 million to $11.2 million to reflect the difference between the book value of the Matola Terminal interest-free loan, and the present value of the remaining instalments, using a cost of debt of 9.1 percent. The current portion of the contingent consideration outstanding for the Chapudi Acquisition was reported in current borrowings in CoAL's annual report. We have included this as contingent consideration at book value in the table above.
- The other financial assets and the non-current contingent consideration are all recognised at book value.

Off balance sheet items

Future corporate overheads

CoAL incurs corporate overheads in relation to managing its business and maintaining its assets. These costs have not been incorporated into the valuation of CoAL's mineral assets set out above, and therefore it is necessary to deduct the present value of anticipated future management and administrative costs in relation to CoAL's assets from the value of CoAL. CoAL has provided us with an estimate of its ongoing head office costs. As discussed in Section 10.5, we have taken into account potential synergies and cost savings which would be available to a pool of third party purchasers on a controlling basis.

The NPV of these corporate costs (including synergies), having regard to the nature of CoAL's portfolio of assets has been estimated to be in the range of $55.9 million to $59.9 million on a post-tax basis.

Matola Terminal Take or Pay Obligation

CoAL is obligated to utilise 75 percent of its 3Mtpa port allocation at the Matola Terminal each year, with any shortfall being charged at a rate of $9.75/t each year. CoAL has the right to renegotiate its annual throughput capacity from 1 January 2017 for an additional 5 years, and then a further two renewal options for 5 years and 2 years up to 31 December 2028. Based on the forecast export sales in the Model from CoAL's Operating Assets, and the Makhado Project which is forecast to commence export sales in FY16, CoAL would only require approximately 1.5Mtpa of capacity in the long term. Based on these assumptions, we have assumed CoAL would renegotiate its throughput capacity down to 1.5Mtpa from 1 January 2017 onwards. The NPV of the future take or pay liabilities to 31 December 2016 is calculated at $22.2 million to $22.6 million.

Future loan to Rothe

CoAL, through its 74 percent owned subsidiary Keynote Trading & Investment 108 (Pty) Ltd (Keynote), acquired 100 percent of the equity and claims acquired through the Chapudi Acquisition. In order for CoAL to comply with BBBEE requirements, Rothe was issued 26 percent of Keynote for ZAR52. CoAL will be responsible for all the expenses and liabilities of Keynote until such time as it starts generating income and becomes profitable. CoAL management has advised that upon receipt of a NOMR over the Chapudi Acquisition, a shareholder loan to Rothe encompassing 26 percent of the Chapudi Acquisition costs and any exploration expenditure will be created.

Given that no interest will be received until the NOMR is granted, we have discounted $19.5 million, being 26 percent of the Chapudi Acquisition costs, from FY17 and FY20 at a cost of debt of 9.1 percent to determine a range of present values for the future shareholder loan. Accordingly we have adopted a fair market value in the range of $10.4 million to $13.5 million.

Contingent liabilities

We have considered the disclosed contingent liabilities, the most significant of which include the disputed 26 percent interest in Mooiplaats Colliery, the double granting over the Klipbank Farm, and the selldown of 26 percent of the Makhado Project to a BBBEE partner. As discussed earlier in this section, we have not adjusted our valuation for any of these factors. Based on CoAL management' assessment of the low relative probability of any actions currently afoot against CoAL being successful (as discussed in Section 8.8), we have not adjusted our fair market value range for the contingent liabilities.

We are not aware of any other material contingent liabilities relating to CoAL.

11.2 Other valuation parameters

Implied value per tonne of CoAL's reserves

KPMG Corporate Finance's valuation of CoAL's equity, inclusive of a full premium for control, lies between $433.4 million to $559.3 million and its estimated current net debt position implies an enterprise value for CoAL in the order of $442.8 million to $568.7 million. Based on CoAL's current attributable reserves of 313.6[11] million tonnes, the implied enterprise value to reserve tonne of coal multiples are as set out in the table below.

Table 24: Implied valuation multiples per reserve tonne

Parameter	Low USD/t	High USD/t
Reserves	1.4	1.8

Source: KPMG Corporate Finance analysis

Set out in Appendix 4 is an analysis of the value per reserve tonne of reserves for various companies selected for comparison implied by the market capitalisation and most recent net debt/(cash) positions of those companies as summarised in the table below.

Table 25: Implied Comparable Company valuation multiples per reserve tonne

Parameter	Low USD/t	High USD/t	Average USD/t	Median USD/t
Reserves	1.8	5.1	3.1	2.0

Source: KPMG Corporate Finance analysis

The range of CoAL's implied reserves values above lies at or below the low end of this range, which likely reflects among other factors that a large portion of CoAL's reserves have significant capital requirements, and that CoAL's attributable reserves are significantly larger than all comparable companies except for Exxaro Resources Limited, which is potentially distorting the outcomes.

Moreover, implied value per reserve tonne of coal as a measure should also be viewed with some caution as it does not capture such things as:

- the extent to which reserves have been developed, their quality, location or proximity to infrastructure
- the quantum or timing of future operating and capital costs required to realise the underlying reserves
- potential timing differences companies in reporting updated reserves and resources figures

[11] Reserves are stated as ROM reserves to be consistent with comparable companies and transactions

Implied value per tonne of CoAL's resources

Based on CoAL's current resources of 7,190.1 million tonnes[12] and KPMG Corporate Finance's implied enterprise value for CoAL of $442.8 million to $568.7 million, the implied multiples per resource tonne are set out in the table below.

Table 26: Implied valuation multiples per resource tonne

Parameter	Low USD/t	High USD/t
Resources	0.06	0.08

Source: KPMG Corporate Finance analysis

Similar to reserves, we have conducted an analysis of the value per resource tonne for selected comparable companies implied by the market capitalisation and most recent net debt/(cash) positions of those companies. The details of these implied trading resource multiples are set out in Appendix 4. Notwithstanding that this analysis indicates a wide range of outcomes, we note that the range of CoAL's implied resource values lies within the range of comparable multiples, albeit toward the low end of this range.

Table 27: Implied Comparable Company valuation multiples per resource tonne

Parameter	Low USD/t	High USD/t	Average USD/t	Median USD/t
Resources	0.04	1.26	0.43	0.33

Source: KPMG Corporate Finance analysis

We again note that implied value per resource tonne as a measure should be viewed with some caution for the reasons set out above and that, in particular, the market capitalisation of the comparable companies considered may not include a premium for control.

Transaction reserve and resource multiples

KPMG Corporate Finance has reviewed data on a range of recent acquisition transactions for coal companies and assets in production. The results of this analysis are set out at Appendix 5 to this report and indicate a wide range of valuation metrics. As shown below, the range of values per reserve tonne of coal implied by our valuation range attributable to CoAL lies within the range of comparable multiples, albeit towards the low end of the observed range in recent takeovers, and below the average and median.

[12] Resources are also inclusive of reserves. Resources are stated on a gross tonnes in-situ basis, given the lack of transparency on certain comparable companies and comparable transactions. Resources include Holfontein

Table 28: Implied Comparable Transaction valuation multiples per reserve tonne

Parameter	Low USD/t	High USD/t	Average USD/t	Median USD/t
Reserves	1.2	10.8	4.8	4.3

Source: KPMG Corporate Finance analysis

Similarly, the range of values per resource tonne of coal implied by our valuation range attributable to CoAL lies at or below the low end of the observed range in recent transactions.

Table 29: Implied Comparable Transaction valuation multiples per resource tonne

Parameter	Low USD/t	High USD/t	Average USD/t	Median USD/t
Resources	0.08	1.84	0.76	0.88

Source: KPMG Corporate Finance analysis

Implied post Placement minority interest value per share

Previous KPMG Corporate Finance analysis of corporate acquisitions completed in the Australian market place indicates that the level of premia paid to acquire 100 percent control of an entity varies widely dependent upon the particular circumstances of each transaction and can be impacted by a wide range of factors, including:

- market speculation prior to the official announcement of a takeover
- the level of pre-existing ownership by the offeror
- the level of operating synergies and/or special benefits that may exist to an offeror
- the impact of contested/hostile takeovers
- the liquidity of the stock prior to the offer
- the level of gearing employed by the target company,

however, we consider it reasonable to expect that, in general, transactions are likely to complete within an acquisition premia range of 25 percent to 40 percent.

As individual non-associated shareholders will hold continue to hold a minority interest in CoAL, albeit diluted, following completion of the Proposed Transaction, we have set out in the table below, for illustrative purposes only, the range of assessed fair market values for a CoAL share (assuming Outcome 1), adjusted for:

- the inclusion of $100.0 million cash from the Proposed Transaction, less estimated transaction costs of $7.7 million
- the increase in CoAL's issued capital to reflect the circa 247.4 million new fully paid ordinary shares to be issued to BHE (based on the agreed GBP:USD exchange rate of 1.6167)
- allowing a 20 percent minority discount to reflect the removal of an implied premium for control of 25 percent.

Table 30: Post-Placement minority interest equity value	**Low USD'000**	**High USD'000**
Total equity value, inclusive of full premium	**433,355**	**559,274**
Add: Cash to be received from the Proposed Transaction	100,000	100,000
Less: Estimated transaction costs	(7,657)	(7,657)
Adjusted post-Placement equity values	**525,698**	**651,617**
Discount for minority interest – say 20%	(105,140)	(130,323)
Post-Placement minority interest equity value	**420,558**	**521,293**
Diluted shares on issue ('000)	800,951	800,951
Add: Placement shares to be issued ('000)	247,418	247,418
Post-Placement diluted shares on issue	**1,048,369**	**1,048,369**
Post-Placement minority interest equity value per share – cents	**40.1**	**49.7**
GBP:USD exchange rate	1.6123	1.6123
Post-Placement minority interest equity value per share – pence	**24.9**	**30.8**

Source: KPMG Corporate Finance analysis

Appendix 1 – KPMG Corporate Finance Disclosures

Qualifications

The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Bill Allen and Jason Hughes. Bill is an associate of the Institute of Chartered Accountants in Australia and holds a Bachelor of Commerce degree. Jason is a fellow of the Institute of Chartered Accountants in Australia, a Fellow of the Financial Services Institute of Australasia and holds a Bachelor of Commerce degree. Each has a significant number of years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to whether the Proposed Transaction is in the best interests of CoAL shareholders. KPMG Corporate Finance expressly disclaims any liability to any CoAL shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report**,** neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Notice of Meeting and Explanatory Memorandum or any other document prepared in respect of the Proposed Transaction. Accordingly, we take no responsibility for the content of the Notice of Meeting and Explanatory Memorandum as a whole or other documents prepared in respect of the Proposed Transaction.

Independence

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to management of CoAL for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

Consent

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Notice of Meeting and Explanatory Memorandum to be issued to the shareholders of CoAL. Neither the whole nor the any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board (APESB). KPMG Corporate Finance and the individuals responsible for preparing this report have acted independently.

Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information:

- various ASX company announcements
- various broker and analyst reports
- various press and media articles
- financial information from Capital IQ, Bloomberg, Thompson Financial Securities, Aspect Huntley and Connect4.

Non-public information

- Binding offer entered into between CoAL and BHE
- Subscription agreement between CoAL and BHE
- Process letter issued by CoAL to potential equity investors
- Draft Cooperation agreement between CoAL and BHE
- BHE's Draft application to FIRB in relation to the Proposed Transaction
- CoAL's FY12 Monthly Management accounts
- Unaudited pro forma balance sheet information
- Profile of Haohua for CoAL prepared by Citic Securities
- Up to date CoAL corporate structure diagram including ownership interests
- Details of currently accrued tax losses for various CoAL projects
- Ownership interest for rights held in the Greater Soutpansberg region
- Technical Specialist report
- Thomson Reuters Coal of Africa Limited Shareholder Analysis as at 30 September 2012
- Descriptions of legal matters not disclosed in CoAL's annual report
- Details of once-off costs that occurred during FY12
- Detailed tenement schedule including ownership interests
- Details of CoAL's employee option program
- CoAL company board papers discussing potential equity investors

In addition, we have had discussions with various representatives of CoAL management.

Appendix 3 – Calculation of discount rate

We have assessed a nominal, post-tax weighted average cost of capital (WACC) for the Woestalleen Complex to be in the order of 12 percent per annum to 13 percent per annum and a WACC for the Vele and Mooiplaats Collieries to be in the order of 14 percent per annum to 15 percent per annum. As CoAL management has provided financial forecasts for the Operating Assets denominated in ZAR, our assessed WACC ranges are denominated in ZAR.

Selection of the appropriate rate to apply to the forecast cash flows of any asset or business operations is fundamentally a matter of judgement. Whilst there is a body of theory that may provide a framework for the derivation of an appropriate discount rate, it is important to recognise that given the level of subjectivity involved in selecting various inputs to the theoretical framework there is no absolute "correct" discount rate.

We consider the rates adopted to be reasonable discount rates that purchasers would use in the current market in assessing the individual operations of CoAL and are reflective of the commercial, operational and technical risks of CoAL's assets.

Introduction to WACC concepts

The WACC of a firm is the expected cost of the various classes of its capital (i.e. its equity and debt), weighted by the proportion of each class of capital to the total capital of the firm and is represented by the following formula, which calculates an after tax nominal rate:

$$WACC = K_d \times (1-t_c) \times (D/(D+E)) + K_e \times (E/(D+E))$$

where the key inputs are defined as follows:

K_e the after-tax cost of equity, which is the rate of return required by the providers of equity capital.

K_d the pre-tax cost of debt, which is the expected long-term future borrowing cost of the relevant project and/or business.

t_c the applicable corporate tax rate.

D the market value of debt.

E the market value of equity.

Given that the capital of the firm is used to finance the assets of the firm, WACC can be viewed as the cost of capital for the assets of the firm. It is an opportunity cost of capital in the sense that it reflects the returns that would have been earned in the market with the relevant capital if it was employed in the next best investment of equivalent risk profile. It represents the minimum weighted average rate of return which is required or expected by the providers of capital as compensation for bearing the risks associated with the relevant investment or business operation.

Each of the components of the WACC formula is discussed further below.

Cost of equity (Ke)

The WACC approach represents a merger of the Capital Asset Pricing Method (CAPM) with capital structure theory. In the WACC formula discussed earlier, the CAPM provides the means for estimating the cost of equity.

The CAPM provides a theoretical basis for determining a discount rate that reflects the risk of a particular investment or business operation. In simple terms, the CAPM states that the returns expected by an equity investor reflect the risk of the underlying equity investment. The risk can be determined by the risk-free rate of return plus a risk premium which reflects the relative risk (as measured by the "beta" factor) required to be borne by the investor. Therefore, the required rate of return for equity securities is determined as set out below:

$$Ke = R_f + \beta \times (MRP) + \alpha$$

where the key inputs are defined as follows:

R_f risk free rate of return.

β beta factor of the investment or business operation.

MRP equity market risk premium.

α alpha factor.

A large degree of subjectivity is involved in estimating the inputs to the formula. These limitations mean that any estimate of the cost of equity must necessarily be regarded as indicative rather than as a firm and precise measure. Furthermore, because the cost of equity is a market-determined measure, changes in market conditions over time will affect its calculation.

Risk free rate (Rf)

The relevant risk-free rate of return is the return on a risk-free security, typically for a long-term period. In practice, long dated government bonds are accepted as a benchmark for a risk-free security.

The spot yield to maturity of liquid government stocks has traditionally been accepted as a proxy for the risk-free rate in determining a cost of equity under the CAPM. However, we note that there is an argument that yields on government stocks may currently be artificially suppressed due to:

- illiquidity issues
- a "flight to quality" as a result of current global economic instability such that the price of bonds has increased, resulting in a fall in nominal returns on "risk-free" securities for reasons other than inflationary expectations,

which has in turn resulted in a prima facie increase in the valuation of assets notwithstanding their cash flow profiles and/or operational risks may have been unchanged from prior periods, which from a commercial perspective is difficult to reconcile having regard to current market conditions.

A number of approaches have been proposed to deal with this issue, KPMG's preferred approach is to adopt the prevailing spot rate at the valuation rate as a proxy for the long term risk free rate, with consideration given to the need for a specific adjustment to the cost of equity having regard to a "blended" long-term rate based on:

- the prevailing yield on government stocks of an appropriate time to maturity as a proxy of risk free rate that can be achieved over this period
- a forecast long-run yield at the expiry of the initial period having regard to estimates published by various economic forecasters,

such that the present value of a nominal distribution stream on holding a fixed interest security over the relevant period at the "blended" rate is the same as that by adopting the yield on a government stocks available as at the Valuation Date over an initial maturity period, followed by the long term rate discussed above.

Given the remaining lives of CoAL's Operating Assets vary significantly, we have adopted separate risk free rates for each of the individual Operating Assets and incorporated an appropriate blending adjustment in the alpha factors discussed below.

The Woestalleen Complex has a remaining life of approximately three years. As such, a nominal ZAR risk free rate of 5.4 percent per annum has been assumed for based on the prevailing spot return on the R157 government stock as at 28 September 2012. The R157 government stock matures in 2015.

Both the Vele and Mooiplaats Collieries represent longer term assets particularly when residual resources are taken into account. As such, a nominal ZAR risk free rate of 7.6 percent per annum has been assumed based on the prevailing spot return on the R186 long-term government stock as at 28 September 2012 for these assets.

Both the R157 and R186 have been selected as they are benchmark government bonds, are highly liquid and internationally traded.

Market risk premium (MRP)

The MRP represents the additional return that investors expect in return for holding risk in the form of a well-diversified portfolio of risky assets (such as a market index). The MRP is the expected risk premium (an ex-ante concept). Given that expectations are not observable, a historical risk premium is generally used as a proxy for the expected risk premium.

The risk premium required by the market is not constant and changes over time. At various stages of the market cycle investors perceive that equities are more risky than at other times and will increase their expected return.

KPMG has adopted a MRP of 6.0 percent per annum. This figure is within the range of generally accepted market risk premia in South Africa.

Beta factor (β)

The beta factor is a measure of the risk of an investment or business operation, relative to a well-diversified portfolio of investments. In theory, the only risks that are captured by beta are those risks that cannot be eliminated by the investor through diversification. Such risks are referred to as systematic, undiversifiable or market risk. The concept of beta is central to the CAPM given that beta risk is the only risk that is priced into investor required rates of return.

The beta for equity securities can be statistically measured by regressing the returns on an equity market index against the share price returns of the relevant stock. By definition, the market portfolio has an equity beta of 1.0. A beta greater than 1.0 implies that the returns on a stock are, on average, more volatile, and hence the stock is more risky than the market, whilst a beta of less than 1.0 implies the reverse.

The beta of a stock can be presented as either an adjusted beta or as an historical beta. The historical beta is obtained from the linear regression of a stock's historical data and is based on the observed relationship between the security's return and the returns on an index. Conversely, the adjusted beta is an estimate of a security's future beta. It is initially derived from the historical beta, but modified by the assumption that a security's true beta will move towards the market average of one, over time. Generally, an adjusted beta is used because of its greater predictive features.

Betas derived from stock market observations represent equity betas, which reflect the degree of financial gearing of the company. Consequently, it is not possible to compare the equity betas of different companies without having regard to their gearing levels. In theory, a more valid analysis of betas can be obtained by "ungearing" the equity beta, by applying the following formula:

$$\beta_a \quad = \quad \beta_e / [1 + (D/E \times (1-t_c)]$$

where "D/E" is the debt and equity values of the relevant equity security and "t_c" is the corporate tax rate. The adjustment involves stripping out the impact of financial gearing from the equity beta to obtain ungeared beta (denoted by β_a).

The following table sets out closing market capitalisation as at 28 September 2012, the two year and five year historical average financial gearing and the adjusted ungeared two year weekly and five year monthly beta estimates for a selection of listed coal development and production companies with operations in Africa. The beta factors have been calculated relative to each company's home exchange index and also relative to the Morgan Stanley Capital Index – All Countries (MSCI), an international equities market index that is widely used as a proxy for the global stock market as a whole. The MSCI is often used as a benchmark in respect of assets likely to be attractive to international buyers.

Table A3 – 1: Selected companies – net financial gearing and ungeared betas

		Debt/Equity %[2,3]		Two year weekly ungeared beta		Five year monthly ungeared beta	
Company	MktCap[1] USD millions	2 year	5 year	Home exchange	MSCI	Home exchange	MSCI
African Rainbow Minerals Ltd.	3,915	2%	4%	1.41	1.02	1.35	1.00

Company	MktCap[1] USD millions	Debt/Equity %[2,3] 2 year	Debt/Equity %[2,3] 5 year	Two year weekly ungeared beta Home exchange	Two year weekly ungeared beta MSCI	Five year monthly ungeared beta Home exchange	Five year monthly ungeared beta MSCI
Anglo American plc	37,837	13%	12%	1.34	1.19	1.38	1.18
Exxaro Resources Limited	6,431	3%	3%	1.37	0.94	1.11	0.95
Sasol Ltd.	25,034	2%	3%	1.10	0.73	1.01	0.73
Coal of Africa Limited	191	0%	0%	0.98	0.74	1.47	1.39
Continental Coal Limited	28	15%	13%	1.41	0.95	1.24	1.21
Homeland Energy Group Ltd.	7	157%	n/a	0.49	0.40	n/a	n/a
Intra Energy Corporation Limited	56	0%	n/a	1.48	1.08	n/a	n/a
Keaton Energy Holdings Limited	44	0%	n/a	0.62	0.37	n/a	n/a
Strategic Natural Resources Plc	48	0%	0%	1.24	1.32	0.82	0.77

Notes

1. Market capitalisation as at 28 September 2012
2. Where a company does not have any interest bearing debt or the resultant net debt figure is negative i.e. where cash exceeds debt, the ratio of net debt to equity has been recorded as 0 percent.
3. Net debt to equity is the average gearing ratio calculated at each annual reporting date for the five-year period prior to 28 September 2012.
4. "n/a" represents insufficient observations.

Source: Capital IQ and, latest available financial statements of relevant companies

In selecting an appropriate ungeared beta for CoAL we have:

- Considered that mining assets have varying risk profiles depending on the maturity of the asset and that there is significant variance in observed beta when measured over the different observation periods.
- Given greater weighting to the beta observations relative to MSCI, reflecting the international nature of coal projects and that coal is traded internationally.
- Considered the status of the Operating Projects being valued by DCF.

Having regard to the above and considering the nature of CoAL's projects, we consider that, on balance, an appropriate ungeared beta for CoAL to be in the order of 1.0 to 1.1.

Having determined an appropriate ungeared beta, it is necessary to "regear" the beta to a specified level of financial gearing to determine the equivalent equity beta.

Debt/equity mix

The selection of an appropriate capital structure is a subjective exercise. The tax deductibility of the cost of debt means that the higher the proportion of debt, the lower the WACC for a given cost of equity. However, at significantly higher levels of debt, the marginal cost of borrowing would increase due to the greater risk which debt holders are exposed to. In addition, the cost of equity would also be likely to increase due to equity investors requiring a higher return given the higher degree of financial risk that they have to bear.

Ultimately for each company there is likely to be a level of debt/equity that represents the optimal capital structure for that company. In estimating the WACC, the debt/equity level assumption should reflect what would be the optimal or target capital structure for the relevant asset. Optimal (as opposed to actual) capital structures are not readily observable. Accordingly, any estimate of optimal capital structure is necessarily subjective. In practice, the existing capital structures of comparable businesses can be used as a guide to the likely capital structure for a firm, taking into consideration the specific financial circumstances of that firm. In drawing any conclusions from the comparable company information, it is important to note that the observed gearing levels usually represent current gearing levels, which may or may not be representative of optimal, long term gearing levels. Furthermore, the gearing level of a company at a given point in time can reflect recent new issues of debt or equity.

In selecting a gearing level for CoAL, we have had regard to the gearing levels of a selection of listed coal exploration, development and production companies as set out in Table A3-1 and have applied professional judgment. We note that comparator group exhibited a wide range of capital structures with many of the smaller comparator companies having 0 percent debt. We do not believe this reflects the optimal capital structure of the Operating Assets of CoAL. On balance, we consider an appropriate long term gearing level for CoAL to be in the order of 10 percent debt and 90 percent equity.

On this basis the regeared beta of CoAL is in the order of 1.08 and 1.19.

Alpha factor

Sovereign risk

In KPMG Corporate Finance’s view it is reasonable to conclude that the sovereign risk exists for a company doing business in South Africa however we believe this is appropriately reflected in the risk free rate given it is based on ZAR denominated bonds issued by the South African government.

Company/ project specific risk

Under CAPM theory, it is assumed that diversified investors require no additional returns to compensate for specific risks, because the net effect of specific risks across a diversified portfolio will, on average, be zero i.e. portfolio investors can diversify away all specific risk. In reality many investors will include an additional risk premium to reflect such factors as project location and stage of development. Certainly, it is common for companies to set “hurdle rates” for investments above their own estimates of the cost of capital, in order to deal with these issues.

It can be argued that the approach of a valuer to this issue should reflect the approach most likely to be adopted by actual or potential purchasers of similar assets. In determining whether or not an additional risk premium should apply to CoAL's Operating Assets, we have considered the nature of the coal operations, their current status and the risks inherent in realising the underlying coal reserves through mining these deposits.

Having regard to CoAL's projects it is reasonable to conclude that an investor would require an additional equity risk premium to account for project specific factors such as lack of diversification, market capitalisation and stage of development.

Taking the above factors in account, and including an adjustment for the long term risk free rate to the Vele and Mooiplaats Collieries, we have adopted an alpha factor of 1.0 percent to 1.5 percent to the Vele and Mooiplaats Collieries and 0.5 percent to 1.0 percent to the Woestalleen Complex.

Cost of equity calculation

The following table sets out our cost of equity estimate for the Operating Assets of CoAL based on the assumptions and inputs discussed above:

Table A3 – 2: Estimated cost of equity

Input	Definition	Woestalleen Complex		Vele and Mooiplaats	
		High value	Low value	High value	Low value
R_f	Risk free rate of return	5.4	5.4	7.6	7.6
β_a	Asset beta (ungeared beta estimate)	1.0	1.1	1.0	1.1
B_e	Equity beta (regeared beta estimate)	1.1	1.2	1.1	1.2
MRP	Equity market risk premium	6.0	6.0	6.0	6.0
α	Alpha factor - Company Specific Risk	0.5	1.0	1.0	1.5
K_e	**Cost of equity (post-tax)**	**12.4**	**13.5**	**15.0**	**16.1**

Source: KPMG Analysis

Cost of debt (Kd)

We have adopted an appropriate South African cost of debt in the order of 9.1 percent. This represents a risk margin of between 150 and 370 basis points over the selected risk free margins. We believe this to be reasonable.

Corporate tax rate (tc)

This valuation does not purport to cater for each individual shareholder's perspective, but rather that of the general body of CoAL shareholders. As the ultimate liability for the tax on dividends lies with the beneficial owner of the shares and there are numerous categories of shareholder which are exempt from this tax, no adjustment has been made to our valuation in respect of the tax implications of dividends.

As such, for the purpose of our valuation assessment we have adopted an assumed average South African corporate tax rate of 28 percent in respect of CoAL.

Calculation of base WACC

The following table summarises the implied base calculation of nominal post-tax WACCs for application in our valuation assessment based on the assumptions/inputs discussed above.

Table A3 – 3: Calculation of WACC – CoAL

Input	Definition	Woestalleen Complex		Vele and Mooiplaats	
		High value	Low value	High value	Low value
K_d	Cost of debt (pre-tax)	9.1	9.1	9.1	9.1
K_e	Cost of equity (post-tax)	12.4	13.5	15.0	16.1
t_c	Corporate tax rate	28.0	28.0	28.0	28.0
D/(D+E)	Proportion of debt in the capital mix	10.0	10.0	10.0	10.0
E/(D+E)	Proportion of equity in the capital mix	90.0	90.0	90.0	90.0
WACC	**Weighted average cost of capital (nominal post-tax)**	**11.8**	**12.8**	**14.1**	**15.2**

Source: KPMG Analysis

Based on the inputs described previously we have calculated WACC in the ranges of 11.8 percent per annum to 12.8 percent per annum and 14.1 percent per annum to 15.2 percent per annum. Having regard to these calculations and the wide variability in data relating to betas and gearing set out above, we consider discount rate in the range of 12.0 to 13.0 percent per annum for the Woestalleen Complex and 14.0 percent per annum to 15.0 percent per annum for the Vele and Mooiplaats Collieries to be appropriate.

Appendix 4 – Comparable company valuation parameters

Table A4 – 1: Selected listed South African coal development and production companies as at 28 September 2012

Company	Location	Enterprise value $M[1]	Resource $/t[2]	Reserve $/t[3]
Continental Coal Limited	South Africa, Botswana	70.8	0.04	1.86
Exxaro Resources Limited	South Africa	7,090.3	0.47	2.01
Homeland Energy Group Ltd.	South Africa	61.7	0.24	5.08
Intra Energy Corporation Limited	Tanzania	50.5	0.21	1.80
Keaton Energy Holdings Limited	South Africa	83.3	0.46	1.84
South African Coal Mining Holdings Limited	South Africa	51.7	1.26	4.62
Strategic Natural Resources Plc	South Africa	50.2	0.33	4.51

Notes:
1. Enterprise value has been calculated as market capitalisation as at 28 September 2012 converted to USD as at the same date based on prevailing spot price (where relevant) and net debt/cash of the company reported prior to 28 September 2012
2. Calculated as enterprise value divided by resources
3. Calculated as enterprise value divided by reserves

Source: Capital IQ, company financial statements, publicly available resource/reserve information of relevant companies and KPMG analysis

Table A4-2: Selected company descriptions

Company	Description
Continental Coal Limited	Continental Coal Limited engages in the production and sale of thermal coal in South Africa. The company primarily holds interests in the Vlakvarkfontein and Ferreira mines. It also holds interests in various development projects in South Africa, as well as exploration projects in Botswana. The company was formerly known as Continental Capital Limited and changed its name to Continental Coal Limited in July 2009. Continental Coal Limited is based in Sandton, South Africa.
Exxaro Resources Limited	Exxaro Resources Limited, a mining company, engages in extracting and processing minerals and metals. It focuses on coal, ferroalloys, iron ore, and selected industrial minerals primarily in South Africa. The company principally produces power station, steam, and coking coal, as well as char. It supplies its power station coal to the national power utility and municipal power stations; and char to the ferroalloy industry. The company was formerly known as Kumba Resources Limited and changed its name to Exxaro Resources Limited in November 2006. The company is based in Pretoria West, South Africa. Exxaro Resources Limited is a subsidiary of Main Street 333 Proprietary Limited.

Company	Description
Homeland Energy Group Ltd.	Homeland Energy Group Ltd. engages in the acquisition, exploration, development, and production of mineral resource properties. The company owns a portfolio of mineral property assets or rights; and engages in mining coal and producing thermal quality coal products for use in the power generation, and cement and brick-end products industries in South Africa, as well as exports to international markets for energy production. It holds a 74% interest in the Kendal Colliery located in the west-central region of the Witbank Coalfield; a 50% interest in the Eloff mineral property located in the province of Mpumalanga; and a 100% interest in the Northfield site reclamation project located in Kwa-Zulu Natal Province in South Africa. The company, through its holdings in Homeland Energy Corp., also engages in the exploration and development of uranium projects in Niger and the United States. Homeland Energy Group Ltd. was founded in 2004 and is based in Toronto, Canada.
Intra Energy Corporation Limited	Intra Energy Corporation Limited engages in the exploration and production of thermal coal properties in Australia and Africa. The company principally holds interests in Mbalawala mine located in the Ngaka basin, Tanzania. It also owns various tenements to explore uranium located in Western Australia. The company was formerly known as Atomic Resources Limited and changed its name to Intra Energy Corporation in April 2011. Intra Energy Corporation was incorporated in 2007 and is headquartered in Sydney, Australia.
Keaton Energy Holdings Limited	Keaton Energy Holdings Limited, a coal mining and development company, engages in the exploration, development, and production of coal resources in South Africa. The company operates the Vanggatfontein Colliery that covers an area of 1,635 hectares in Mpumalanga; and the Vaalkrantz Anthracite Colliery located in KwaZulu-Natal province. Its development projects include the Sterkfontein project that covers a total area of 7,280 hectares in the Bethal district of the Highveld Coalfield in Gauteng; the Braakfontein project located near Newcastle in KwaZulu-Natal; and the Koudelager project in KwaZulu-Natal. The company's exploration projects comprise the Balgray and Mpati projects located in KwaZulu-Natal. Keaton Energy Holdings Limited was founded in 2006 and is based in Bryanston, South Africa.
South African Coal Mining Holdings Limited	South African Coal Mining Holdings Limited engages in production and distribution of coal. The company was founded in 2007 and is based in Pretoria, South Africa. South African Coal Mining Holdings Limited operates as a subsidiary of JSW Energy Ltd.
Strategic Natural Resources Plc	Strategic Natural Resources Plc engages in the acquisition and development of natural resource assets primarily in South Africa. The company, through its subsidiary, Elitheni Coal (Pty) Limited, engages in the development and mining of Elitheni coal mine that covers an area of 184,000 hectares and is located in Eastern Cape Province. Strategic Natural Resources Plc was founded in 2004 and is based in London, the United Kingdom.

Appendix 5 – Comparable transaction valuation parameters

Table A5-1: Selected comparable transactions

Target	Coal types[5]	Mining method	Percentage acquired	Acquirer	Date announced	Enterprise value ($m)[1,2]	Resource multiple Resource $/t[3]	Reserve $/t[4]
Shanduka Coal Pty Ltd	TC	OC	20.0%	Shanduka Group Pty Ltd	14 Dec 11	422.9	1.84	5.6
Umcebo Mining (Pty) Ltd	TC	OC	43.7%	Glencore International plc	7 Dec 11	309.6	0.46	4.7
Optimum Coal Holdings Limited	TC	OC, UG	67.8%	Glencore International plc, Mr Ramaphosa	1 Sep 11	1,377.7	1.07	4.0
Riversdale Mining Ltd	CC, TC, AC	OC	100.0%	Rio Tinto Ltd	23 Dec 10	3,657.0	0.31	10.8
Mashala Resources	TC	OC, UG	64.1%	Continental Coal Ltd	15 Sep 10	54.6	0.13	n/a
Minas Moatize LDA	TC, CC	OC, UG	100.0%	BHR Mining Ltd	16 Apr 10	35.0	1.06	n/a
Siyanda Coal Pty Ltd	TC	UG	50.0%	Optimum Coal Holdings Limited	12 Feb 10	174.5	0.88	2.5
Khanyisa Mine	TC	OC	100.0%	Wescoal Mining (Pty) Limited	23 Jun 09	5.2	1.04	1.2
Coal of Africa Limited	CC, TC	OC, UG	16.3%	ArcelorMittal South Africa	7 Apr 09	128.4	0.08	n/a

Notes:

1. Consideration represents the market value of the target, denominated in United States dollars, calculated based on the bidder's closing share price, the prevailing exchange rate on the last trading day prior to the announcement (as applicable) and the number of shares on issue prior to the announcement date.
2. Where the transaction involved a company acquiring the balance of shares it did not directly own or where the transaction involved less than 100% acquisition, the consideration has been grossed up to reflect an implied acquisition of 100%.

3. Resources and reserve multiples are calculated using the enterprise value implied by the consideration offered and the target's net debt/cash position reported prior to the announcement of the transaction. Resources and reserves have been sourced from latest resources and reserves statement announced by the company prior to the announcement of the transaction.

4. Reserve multiples are based on proven and probable reserves (exclusive of stockpile). Resource multiples are based on measured, indicated and inferred resources, and are inclusive of reserves.

5. TC: Thermal coal, CC: Coking coal, AC: Anthracite, OC: Open cut mining, UG: Underground mining

Source: Capital IQ, company websites, company announcements, company financial statements and KPMG analysis

Appendix 6 – Technical Specialist Report