YEAR IN REVIEW

CoAL continued to execute the turnaround strategy with noteworthy progress being made to achieve our vision: to be a premier hard coking coal producer in South Africa.

Chairman's statement

Bernard Pryor
Chairman

The year under review culminated in our flagship Makhado Project being granted a mining right.

During the past year our Company has been focused on two main objectives, firstly moving forward with our flagship Makhado Project and secondly the proposed acquisition of a cash generating asset. This strategy is aimed at making CoAL self-sufficient and, therefore, creating a sustainable mid-tier coal producer. Pursuit of this strategy was only possible following the significant progress on the five point turnaround strategy which was focused on the resolution of the numerous legacy issues.

This strategy fits well as the commodity cycle has in recent months provided some grounds for optimism with coking coal and thermal coal prices increasing significantly so far during CY2016. Despite this uplift there is still some way to go before we see fundamental demand growth for commodities. Mining companies across the globe are still focused on the selling of non-core assets and reducing overhead costs, though there are signs that selling assets at any value is not happening because greater option value is now being factored into valuations. We will continue to watch this space with interest over the next 12 months.

These current commodity trends reinforces our view that the strategy the Company is pursuing is the correct one. While we were extremely disappointed that we could not complete the recent Universal Coal Plc (Universal) transaction the strategy remains in place and, of course, this strategy can only be executed with the full support of you, our shareholders. In an effort to execute our acquisition aspirations we will need to build on existing as well as create future relationships.

On the Makhado Project we made positive progress on the regulatory process. This is a complex and multi-faceted environment and, as such, has taken longer than anticipated. The Makhado Project completed the FEED work which involved a relook at all the capital elements related to the project construction. Given the weaker South African rand/United States dollar exchange rate and the reduced rand capital costs have combined to ensured that the project reduced its capital expenditure cost in US$ by approximately 30%. This is a very significant project in the context of South African mining as well as the positive impact it can have on the Limpopo province and this project remains the cornerstone of future value for the Company.

THE FUTURE

We believe the improving coal price trend should continue given the context of global cuts in spending on exploration and a reduction in supply via mine closure. When coupled with demand growth in the future, this would imply the possible emergence of an undersupply in some commodities. Much debate on the inputs into the world's power requirements have and will continue to take place and while we all understand and are mindful of the need for countries to embrace a future energy mix that incorporates other elements, it should be noted that coal still provides almost two thirds of the world's power and as such reliance on coal supplies will continue for both the short and medium term.

Coal's contribution to the energy mix will remain important for some time to come, particularly in South Africa, a unique and complex case with its developed infrastructure, the country's increasing demand for energy, and the quality and quantity of its coal resources.

An immediate challenge to the South African mining sector lies in the regulatory environment and the approach of government to proposed changes to the Mining Charter and the Mineral and Petroleum Resources Development Act (MPRDA). During this new year we can expect the new draft Mining Charter to be introduced, but this should only come after frank discussions between the state and mining companies that are cognisant of the government's imperatives.

APPRECIATION

It remains for me to record my appreciation and gratitude to my Board who have brought CoAL through a difficult period so as to be ready for its next stage of its development. In particular I must thank the whole CoAL team for their unstinting hard work and we are excited about what the future holds.

Bernard Pryor
Chairman

CEO's review

David Brown
Chief Executive Officer

Acquisition of a cash generator remains important.

The past financial year was a period in which we focused primarily on two main initiatives designed to ensure long-term sustainability: the offer for Universal and progressing regulatory matters pertaining to the Vele and Makhado Projects.

During the year CoAL recognised that, even though we have a pipeline of projects that will sustain the Company for many years, the Company would be unable to generate revenues from our operations/projects over the next two to three years. As such, the acquisition of a cash generator remains important. The Universal transaction fitted this purpose well and we are disappointed that this was not concluded post year end. We continue, however, to look at a number of acquisition opportunities which could include Universal. The reasons for the deal are well documented but to reiterate why we did not move forward, it was the significant uncertainty over the cash generating potential of Universal's New Clydesdale Colliery assets that was one of the major contributors to the deal lapsing. In KMPG's fair and reasonable report, released toward the end of CY2015, 30% – 40% of the value of Universal was encapsulated in the new Clydesadale asset. Its Eskom contract was due to have been signed during 2015, with production expected by H1 CY2016. Unfortunately, by the time we came to closing out the transaction, this Eskom matter had not been resolved. This would have impacted on our ability as an enlarged group to redeem the loan notes as and when they were due.

Progress on the regulatory matters, while pleasing, continues to affect our ability to progress large-scale projects in a timely and effective manner.

This is due to the complex nature of the regulatory environment that affects our ability to create an appropriately coherent and timely approach to getting these types of projects underway. As a result I believe that, against the backdrop of diminishing returns, partly as a result of the uncertain commodity environment, this makes large-scale foreign direct investment incredibly difficult to attract.

SAFETY, HEALTH AND ENVIRONMENT

The safety of our employees remains top priority at CoAL and no lost-time injuries (LTIs) were recorded during the financial year. This is the third consecutive year that we have successfully completed without a single LTI. Currently, CoAL has two operations on care and maintenance, the Mooiplaats and Vele Collieries, and a large project site, the Makhado Project. We continued to use this period of reduced operational activity to review and amend our various codes of practice thereby ensuring the Company remains abreast of safety trends and ensuring we continue to employ best safety practices.

On health matters we focused on ensuring that our care and maintenance sites adhere to all relevant requirements as well as identifying any additional areas to be covered once construction starts at Makhado.

Environmental adherence and best practice remains another top priority for the Company. Doing it right, first time continued to be at the forefront of our actions and the approach over the past 36 months has ensured that regulators and interested and affected parties understand that, as a Company, one of our key values is to ensure that all activities are completed "by the book". The South African mining industry operates in a regulatory environment which is world class and it is important that mining adheres to all regulations.

The Environment Management Committee has continued its good work in ensuring that Vele strives for best practice and that in many cases it betters the standards required. Our relationship with the regulatory authorities continues to strengthen on the back of our continued demonstration of taking the "correct" action. We look forward to continuing to build on this reputation.

FINANCIAL PERFORMANCE

CoAL's loss increased to $23.4 million (FY2015: $6.7million) in the past financial year. The biggest contributor to the recorded loss related to foreign-exchange loss as a result of significant volatility associated with the South African rand in the last financial year. Also contributing to the loss were non-cash charges of $12.8 million (FY2015: $7.5 million) which included the following items:

- Depreciation and amortisation of $1.2 million (FY2015: $1.4 million);
- Unrealised foreign-exchange loss of $9.5 million (FY2015: $18.9 million gain) as a result of the South African rand's weakening against the United States dollar; and
- Share-based payment expense of $0.2 million (FY2015: $3.1 million).

The successful equity raise ensured additional working-capital funds and left the cash balance at year-end at $19.5 million (FY2015: $17.8 million). The anticipated sale of the Mooiplaats Colliery will further enhance our cash position. In addition, we are in discussion to ensure that we have sufficient funds to satisfy our repayment of the Rio Tinto Minerals Development Limited (Rio Tinto) liability as well as adequate working capital.

CORPORATE MATTERS

The focus during FY2016 was the acquisition of a "cash generator" for the Group. During the year we made an offer to acquire Universal. Though the offer lapsed post the year's end, we still see the merit in a transaction of this nature.

The Company has a balance outstanding to Rio Tinto in respect of the acquisition of various assets that form part of our Greater Soutpansberg Project (GSP). During the year Rio Tinto declared a dispute and the matter went to mediation before being resolved. The outstanding balance of $16.5 million (FY2015: $19.8 million) needs to be repaid by June 2017. This end date did not change as a result of the mediation.

Our next objective is to ensure we raise sufficient funding to push forward with the Makhado Project. The funding is targeted at project level and discussions on the matter has been continuing with the Industrial Development Corporation (IDC). The Company's success in obtaining various regulatory approvals means that certain obligations may arise prior to construction-funding being available. If this should be the case we would be seeking investors to provide some additional impetus to move the project forward.

PROGRESS AT MAKHADO

During the current financial year we completed the optimisation study and FEED for the Makhado Project. The FEED was performed by the international engineering company DRA. The results, discussed in more detail elsewhere in this report, were highly positive. Lower dollar-denominated capital expenditure estimates significantly enhance the project's economics.

NOMR in CY2015 and the IWUL during 2016 were significant developments. Subject to appeals being overturned, we expect the construction of Makhado to commence in the later part of CY2017.

The memorandum of understanding signed with Qingdao Hengshun Zhongsheng Group Co Ltd (Hengshun) has resulted in the exchange of information to progress the proposed "sale" of a strategic equity stake in the project, and combined with the black economic empowerment (BEE) shareholder transactions, should ensure that the Company has sufficient equity funding for the project. The balance of the funding required will be via project debt – the target debt to equity ratio is 50:50.

PROGRESS AT VELE

We continue to move forward on the regulatory approvals required for the proposed plant modification project. Current export coal prices and a lack of domestic market sales contracts affect the economics of Vele. In the absence of an improved pricing environment or a ready domestic market, the colliery will remain on care and maintain until the regulatory approvals are in place. We expect these approvals to be finalised by end of CY2016. Once the approvals are received then the CoAL board will assess its options.

The Company continues to explore the possibility of domestic supply contracts and the Limpopo province, where Vele is situated, has designated certain areas as special economic zones. These will require raw materials inputs, with coal being a critical element. We are in the process of evaluating the positive impacts this will have on the region and the requirements that will emanate from this potential industrial hub. In addition, the South African government is in the process of requesting proposals for additional base-load coal-fired power stations as part of an independent power producer drive. As a large portion of South Africa's unexploited coal resources are found in the Limpopo province, it makes strategic sense that future power plants are located close to the coal sources so as to mitigate high logistics costs.

THE MARKET

Commodity markets during CY2016 continued to experience downward price pressures as the view of lower economic activity around the globe sank, driven by relative weakness in the Chinese economy coupled with an oversupply of many commodities.

However, spot prices have shown some improvements in recent months, but the real question is where they might rise to and for how long. There is still a need to reduce the global oversupply position, and it is expected that under the present circumstances this will only be achieved through supply cut backs rather than by robust growth. Having re-examined Vele, it appears unlikely that the colliery will be producing before June 2017. The Makhado Project is only expected to commence production in 2020 (dependent on fundraising and regulatory approvals). This timing is seen as potentially beneficial as the Company would be supplying into an improved pricing environment and it provides CoAL with additional time to develop and expand its domestic and/or export marketing strategy.

OUTLOOK FOR THE NEW YEAR

The Company will pursue potential merger and acquisition opportunities that demonstrate strategic and value accretive propositions. Our vision remains for CoAL to become South Africa's premier hard coking coal producer. As stated last year, the Company's production profile will be dependent on access to capital, on the health of the commodity markets, and on the predictability and robustness of the regulatory environment.

During the coming financial year CoAL will continue to make progress on our projects. The Makhado Project will act as a catalyst for significant benefits in the region in which it is situated. The regulatory process will be followed meticulously so as to ensure that we continue to operate within the parameters required. Construction activities will only start once the regulatory matters are resolved. As stated in last year's report, we had hoped to have started construction towards the latter part of CY2016. However, due to the complex regulatory and operating environment, this has proved not to be possible.

We will continue to explore options for Mooiplaats and a sale remains our preferred option. This is the last outstanding element on CoAL's turnaround strategy.

APPRECIATION

I would like to thank the dedicated team at CoAL. I am proud of your achievements and hard work. To the Chairman and the Board of Directors thank you for your continuing sound guidance and counsel.

David Brown
Chief Executive Officer