



## ANNOUNCEMENT

28 April 2017

056/2017

### REPORT FOR THE QUARTER ENDED 31 MARCH 2017 OBTAINING A CASH GENERATOR AND PROJECT FUNDING

Coal of Africa Limited (“CoAL” or “the Company”) which operates in South Africa, together with its subsidiaries, hereby provides its update for the quarter ended 31 March 2017. All figures are denominated in United States dollars unless otherwise stated. A copy of this report is available on the Company’s website, [www.coalofafrica.com](http://www.coalofafrica.com).

#### Salient operational features

- No lost-time injuries (“LTIs”) recorded during the quarter (FY2017 Q2: nil).
- Agreements concluded for the acquisition of the Uitkomst Colliery from Pan African Resources Plc (“Pan African”) for a purchase price of R275 million (US\$20.5million).
- Successful placement of US\$2 million by M&G Investment Management Ltd (“M&G”) and the conversion of US\$9.8 million of the Yishun Brightrise Investment PTE Limited (“YBI”) US\$10 million loan to equity.
- Successful closure of the sale of Holfontein Investment Proprietary Limited (“Holfontein”) to Taung Gold Secunda Proprietary Limited (“Taung Gold”).
- Successful completion of a loan agreement for up to R240 million from the Industrial Development Corporation of South Africa (“IDC”) for the development of the Makhado Project.
- Granting of an Environmental Authorisation in terms of the National Environmental Management Act (“NEMA”) (Act 107 of 1998) and the Environmental Impact Assessment Regulations (2014) to Vele Colliery for stream diversion and associated infrastructural activities.

#### Corporate and financial features

- Available cash at period end of US\$5.1 million and restricted cash of US\$0.05million.

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## QUARTERLY COMMENTARY

### **Makhado Coking Coal Project (“Makhado Project”) – Soutpansberg Coalfield (100% owned - 74% post BBBEE transaction)**

The Makhado Project recorded no LTIs (FY2017 Q2: nil) during the quarter.

Makhado’s 26-month construction phase is expected to begin as soon as all regulatory approvals are in place (expected during CY2017). This delayed start up reflects the complex environment in which South African mining companies operate. CoAL remains committed to ensuring that the requisite processes are completed as efficiently as possible. Post construction, a further four month ramp-up phase will result in the production of 5.5 million tonnes per annum (“Mtpa”) of saleable product.

During FY2016 Q2, the Company was granted a 20-year Integrated Water Use Licence (“IWUL”) for the Makhado Project. Following an appeal to the DWS submitted by the Vhembe Mineral Resources Forum and other parties, the IWUL was automatically suspended under Section 148 (2) (b) of the South African National Water Act No 36 of 1998. Representation has been made to the Minister of Water and Sanitation and the Water Tribunal to progress the final conclusion of the appeal.

The interim court interdict to halt any mining or construction activity issued against CoAL in respect of the Makhado Project during Q2 FY2014 remains in place. Subsequent to this, the Environmental Authorisation (“EA”) for the Makhado Project was transferred from CoAL to Baobab Mining and Exploration (Pty) Ltd, the operating entity for the Makhado Project in July 2016 by the Department of Mineral Resources (“DMR”) and the Limpopo Department of Economic Development, Environment and Tourism. The validity period for the commencement of activities was also further extended for an additional five years. This authorisation is fully executable and will facilitate the commencement of the Makhado Project upon resolution of the IWUL.

CoAL has successfully launched the Makhado Centre of Learning which aims to develop skills within communities to enable access to opportunities offered within the Makhado Project

CoAL remains committed to the sustainable development of the Makhado Project, recognising its potential to drive significant socio-economic transformation. The Company continues to engage with all stakeholders to ensure the on-going implementation of a co-existent model, seeking co-operation between mining, agriculture and heritage land uses.

The Company is in the process of securing the surface rights for the Makhado Project. This process is highly complicated as current surface rights are subject to land claims and the Company needs to ensure that due process is followed. The Project is located over five farms.

#### **Mooiplaats Colliery – Ermelo Coalfield (74% owned)**

The Mooiplaats thermal coal colliery (“Mooiplaats Colliery”) was placed on care-and-maintenance during Q1 2014, and recorded no LTIs during the period (FY2017 Q2: nil).

Due to the increase in coal pricing over the six months, the Company has experienced renewed interest in the Mooiplaats Colliery by potential buyers. Interested parties are at various stages of financial assessment and completion of the due diligence process. The Company is committed to delivering a successful completion of the sale as soon as possible.

#### **Vele Colliery – Limpopo (Tuli) Coalfield (100% owned)**

The Vele coking and thermal coal colliery (“Vele Colliery”) recorded no LTIs during the quarter (FY2017 Q2: nil).

The IWUL for the Vele Colliery has been renewed for a further 20 years and has also been amended in line with the requirements for the colliery’s Plant Modification Project (“PMP”).

The DMR has recently granted an EA in terms of the National Environmental Management Act (Act 107 of 1998) and the Environmental Impact Assessment Regulations (2014) for Vele Colliery for the diversion of a stream and associated infrastructural activities.

CoAL awaits the granting of an IWUL by the DWS, which is the final approval required to complete the regulatory approvals for the stream diversion in respect of the PMP. Once all regulatory approvals are in place, the Company will be in a position to consider current market pricing and off-take agreements to conclude on an investment decision favourable to the Company.

#### **Greater Soutpansberg Project (MbeuYashu) (74% owned)**

The MbeuYashu Project recorded no LTIs (FY2017 Q2: nil) during the period.

No other significant matters to report.

#### **Acquisition of the Uitkomst Colliery**

During the quarter, the Company announced the successful completion of an agreement with Pan African in which CoAL will acquire 100% of the shares in and claims against Pan African Resources Coal Holdings

Proprietary (“PAR Coal”) for a purchase price of R275 million (US\$20.5 million). PAR Coal holds a 91% shareholding in Uitkomst Colliery Proprietary Limited (“Uitkomst”).

Uitkomst is a high grade thermal export quality coal deposit with metallurgical applications, which is situated in the Utrecht coalfields in KwaZulu Natal. Uitkomst consists of an existing underground coal mine and a planned life-of-mine extension. The operating mine is easily accessible and well-established. Existing infrastructure such as power supply, water supply, buildings, workshops, weighbridge, water storage and management facilities are all in place. Uitkomst currently employs approximately 520 employees (including contractors).

Uitkomst had a net asset value of R209 million and made operating profits of R21.3 million for the 6 months ended 31 December 2016 as disclosed in the interim financial statements of Pan African.

**The acquisition price of R275 million will be settled as follows:**

- R125 million (US\$9.3 million) payable in cash (“cash consideration”);
- R25 million (US\$1.8 million) deferred consideration (“the deferred consideration”). The deferred consideration can be repaid by CoAL at any time prior to the 24 month anniversary of the effective date of the acquisition. The deferred consideration will bear interest at the prime rate, and shall be repaid on the second anniversary of the effective date. CoAL shall be entitled to prepay any amounts in respect of the deferred consideration. If not settled after 24 months, the balance outstanding can be settled through the issue of new CoAL shares at the 30-day volume weighted average price as traded on the JSE on the date immediately prior to the date on which Pan African gives its election. To the extent that certain coal buy-in opportunities are not secured by, or with the assistance of Pan African, within two years from the effective date, which would result in CoAL suffering a lower economic benefit, the deferred consideration may be reduced, subject to a maximum of R15 million; and
- 261 287 625 newly issued CoAL shares (equivalent to R125 million) equating to approximately 9.3% of CoAL’s total issued share capital.

The Company will fund the cash consideration through internal cash resources and proceeds of an aggregate US\$13 million equity investment from Summer Trees Pte Ltd and M&G at a subscription price of R0.52 (US\$0.03878) per CoAL share, resulting in the issue of 335 250 000 shares pursuant to agreements with CoAL.

The implementation of the acquisition is both subject to and conditional on the fulfilment of conditions precedent customary for a transaction of this nature and includes, *inter alia*, the following:

- CoAL obtaining all of the requisite shareholder, AIM, JSE and ASX approvals to implement the acquisition and ancillary transactions;

- Uitkomst entering into a supply of coal agreement on terms acceptable to CoAL;
- Uitkomst being released, in writing, from its obligations as a guarantor in terms of Pan African facility agreements;
- Pan African being released from its obligations as guarantor from the financial provisions provided to the DMR and the guarantee been replaced in a manner and form acceptable to CoAL;
- Pan African and CoAL entering into a transitional services agreement;
- The approval by the Competition Authorities under the Competition Act; and,
- Any exchange control approval which might be required from the Exchange Control Authorities, in terms of the Exchange Control Regulations being obtained.

### **IDC Loan**

During the quarter, the Company has entered into a loan agreement with the IDC and Baobab Mining and Exploration Proprietary Limited ("Baobab"), a subsidiary of CoAL and owner of the mining right for the Makhado Project, in terms of which the IDC shall advance loan funding of up to R240 million (approximately US\$17.6million) to Baobab for the Makhado Project. The Loan Funding will be used to advance the operations and implementation of the Makhado Project.

#### **The loan funding is subject to the following conditions:**

- The IDC advancing to Baobab in two equal tranches of R120 million (approximately US\$9.2million) upon written request from Baobab;
- Each Tranche having a three-year repayment period and accruing interest at a real after-tax rate of 16% per annum;
- Subject to the provisions of the Loan Agreement, CoAL standing surety for Baobab's obligations to ensure repayment of the loan amount in instances in which Baobab defaults on such payments;
- CoAL issuing to IDC warrants (in respect of CoAL shares) pursuant to each advance date as soon as the relevant shareholder approval for the issue has been received. More details regarding the warrants will be provided in due course;
- Baobab and CoAL providing the IDC with warranties, representations and undertakings which are customary in a loan funding agreement of this nature;
- IDC having the right to appoint one director to the Baobab board and to be a member of Makhado Project steering committee during the loan repayment period; and
- Upon each advance date, Baobab issuing new ordinary shares in Baobab to the IDC, equivalent to 5% of the entire issued share capital of Baobab at such time. CoAL's shareholding in Baobab will be diluted accordingly. Notwithstanding such dilution, CoAL will retain a majority shareholding in Baobab.

## Corporate

During the period under review, the Company concluded the previously announced sale of 100% of the issued share capital in Holfontein Investments (Pty) Ltd to Taung Gold and received the final settlement of R25 million post quarter-end. The Section 11 transfer of the mineral rights was granted by the DMR in late March 2017.

The Company also received confirmation that Fifth Season (Pty) Ltd is in the process of funding its full and final settlement of the outstanding balance to CoAL regarding the disposal of the previously announced Opgoedehoop Mining Right. The Company remains confident that the outstanding balance will be received in due course. The capital balance outstanding is approximately R15million, including VAT, but excluding accrued interest.

CoAL has continued to restructure its balance sheet and ensure that it is well positioned to unlock shareholder value through its flagship Makhado Project. As part of this restructuring, the Company recognised that limited cash flow will be generated during the Makhado pre-production phase over the next three to four years. Therefore the Uitkomst acquisition represents a highly compelling and attractive value proposition that CoAL believes to be value accretive and which will provide cash flows to support CoAL as the Company continues to progress the Makhado Project. CoAL believes that Uitkomst will complement the Makhado Project and development project pipeline by:

- Creating a sustainable, multi-product mining group, with a skilled team and excellent resources adding to the development profile;
- Providing positive cash flows from Uitkomst;
- Enlarging CoAL's asset base, which provides a stronger proposition to access the necessary funding required to pursue the development of the enlarged group's growth opportunities; and,
- Positioning CoAL as a potential industry consolidator, with a management team capable of delivery

As part of the continued balance sheet restructuring, the Company has acquired additional funding from an anchor shareholder, M&G. An amount of US\$2 million was invested during the period and will be used for working capital. The Company has also successfully converted the majority of the US\$10 million loan to shareholder YBI to equity during the period under review. This conversion has a positive impact on the Company's balance sheet and eliminates a large potential future cash outflow. These two transactions resulted in the issue of an aggregate 289 050 199 shares at an issue price of US\$0.04081 per share. The remainder of the YBI loan will be converted to equity following shareholder approval at the upcoming EGM,

At the end of March 2017, the Company had an outstanding balance owing to Rio Tinto of US\$8.4 million, excluding interest. The Company had a cash balance of US\$5.1 million, excluding the Holfontein receipt of R25

million (US\$1.9 million) as this was only received post quarter-end. The Company is in the process of concluding its first drawdown of the IDC loan funding which should yield approximately US\$9.2 million.

## Markets

The hard coking price has once again rallied on the back of short term supply constraints owing to disruptions caused by weather and infrastructure problems. While we do not consider the current prices to be sustainable in the long term, the current price movement underpins the tightness of world supply and, as such, is positive for longer term pricing.

**David Brown, CEO commented:** “The last quarter has been filled with overdue good news for CoAL: the successful acquisition of the Uitkomst Colliery, securing the IDC funding; and the completion of the Holfontein Mining Right sale/transfer. The Company is making good progress toward re-entering the market as a coal producer, while focusing on the timeous funding and finalisation of the regulatory and surface right requirements for the Makhado Project”.

Authorised by

**David Brown**

Chief Executive Officer

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Investec Bank Limited is the nominated JSE Sponsor

### About CoAL:

CoAL is an AIM/ASX/JSE listed coal exploration, development and mining company operating in South Africa. CoAL's key projects include the Vele Colliery (coking and thermal coal), the Greater Soutpansberg Project /MbeuYashu, including CoAL's Makhado Project (coking and thermal coal).

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## Tenements held by CoAL and its Controlled Entities

Project Name	Tenement Number	Location	Interest	Change in quarter
Chapudi Project*	Albert 686 MS-	Limpopo~	74%	
	Bergwater 712 MS--		74%	
	Remaining Extent and Portion 2 of Bergwater 697 MS--		74%	
	Blackstone Edge 705 MS		74%	
	Remaining Extent & Portion 1 of Bluebell 480 MS-		74%	
	Remaining Extent & Portion 1 of Bushy Rise 702 MS--		74%	
	Castle Koppies 652 MS--		74%	
	Chapudi 752 MS --		74%	
	Remaining Extent, Portions 1, 3 & 4 of Coniston 699 MS--		74%	
	Driehoek 631 MS--		74%	
	Remaining Extent of Dorps-rivier 696 MS--		74%	
	Enfield 512 MS (consolidation of Remaining Extent of Enfield 474 MS, Brosdoorn 682 MS & Remaining Extent of Grootvlei 684 MS)--		74%	
	Remaining Extent and Portion 1 of Grootboomen 476 MS-		74%	
	Grootvlei 684 MS--		74%	
	Kalkbult 709 MS		74%	
	Remaining Extent, Remaining Extent of Portion 2, Remaining Extent of Portion 3, Portions 1, 4, 5, 6, 7 & 8 of Kliprivier 692 MS-		74%	
	Remaining Extent of Koodoobult 664 MS-		74%	
	Koschade 657 MS (Was Mapani Kop 656 MS)-		74%	
	Malapchani 659 MS-		74%	
	Mapani Ridge 660 MS-		74%	
	Melrose 469 MS-		74%	
	Middelfontein 683 MS-		74%	
	Mountain View 706 MS-		74%	
	M'tamba Vlei 654 MS		74%	
	Remaining Extent & Portion 1 of Pienaar 635 MS-		74%	
	Remaining Extent & Portion 1 of Prince's Hill 704 MS-		74%	
	Qualipan 655 MS-		74%	
	Queensdale 707 MS-		74%	
	Remaining Extent & Portion 1 of Ridge End 662 MS-		74%	



Project Name	Tenement Number	Location	Interest	Change in quarter
	Remaining Extent & Portion 1 of Rochdale 700 MS-		74%	
	Sandilands 708 MS-		74%	
	Portions 1 & 2 of Sandpan 687 MS--		74%	
	Sandstone Edge 658 MS-		74%	
	Remaining Extent of Portions 2 & 3 of Sterkstroom 689 MS--		74%	
	Sutherland 693 MS-		74%	
	Remaining Extent & Portion 1 of Varkfontein 671 MS--		74%	
	Remaining Extent, Portion 2, Remaining Extent of Portion 1 of Vastval 477 MS-		74%	
	Vleifontein 691 MS-		74%	
	Ptn 3, 4, 5 & 6 of Waterpoort 695 MS--		74%	
	Wildebeesthoek 661 MS-		74%	
	Woodlands 701 MS-		74%	
Kanowna West and Kalbara	M27/41	Coolgardie^	23.68%	
	M27/47		23.68%	
	M27/59		23.68%	
	M27/72,27/73		23.68%	
	M27/114		23.68%	
	M27/181		21.31%	
	M27/196		23.68%	
	M27/414,27/415		23.68%	
	P27/1826-1829		23.68%	
	P27/1830-1842		23.68%	
	P27/1887		23.68%	
Abbotshall Royalty	ML63/409,410	Norseman^	Royalty	
Kookynie Royalty	ML40/061	Leonora^	Royalty	
	ML40/135,136		Royalty	
Makhado Project	Fripp 645 MS	Limpopo~	100%#	
	Lukin 643 MS		100%#	
	Mutamba 668 MS		100%#	
	Salaita 188 MT		100%#	
	Tanga 849 MS		100%#	
	Daru 848 MS		100%#	
	Windhoek 847 MS		100%#	
Generaal Project	Beck 568 MS--	Limpopo~	74%	
	Bekaf 650 MS-		74%	
	Remaining Extent & Portion 1 of Boas 642 MS-		74%	

Project Name	Tenement Number	Location	Interest	Change in quarter
	Chase 576 MS-		74%	
	Coen Britz 646 MS-		74%	
	Fanie 578 MS-		74%	
	Portions 1, 2 and Remaining Extent of Generaal 587 MS-		74%	
	Joffre 584 MS-		74%	
	Juliana 647 MS		74%	
	Kleinenberg 636 MS-		74%	
	Remaining Extent of Maseri Pan 520 MS-		74%	
	Remaining Extent and Portion 2 of Mount Stuart 153 MT--		100%	
	Nakab 184 MT--		100%	
	Phantom 640 MS--		74%	
	Riet 182 MT--		100%	
	Rissik 637 MS-		100%	
	Schuitdrift 179 MT-		100%	
	Septimus 156 MT--		100%	
	Solitude 111 MT-		74%	
	Stayt 183 MT--		100%	
	Remaining Extent & Portion 1 of Terblanche 155 MT--		100%	
	Van Deventer 641 MS-		74%	
	Wildgoose 577 MS-		74%	
Mopane Project*	Ancaster 501 MS--	Limpopo~	100%	
	Banff 502 MS-		74%	
	Bierman 599 MS-		74%	
	Cavan 508 MS		100%	
	Cohen 591 MS--		100%	
	Remaining Extent, Portions 1 & 2 of Delft 499 MS-		74%	
	Dreyer 526 MS--		74%	
	Remaining Extent of Du Toit 563 MS-		74%	
	Faure 562 MS		74%	
	Remaining Extent and Portion 1 of Goosen 530 MS --		74%	
	Hermanus 533 MS-		74%	
	Jutland 536 MS--		100%	
	Krige 495 MS-		74%	
	Mons 557 MS-		100%	
	Remaining Extent of Otto 560 MS (Now Honeymoon)-		74%	
	Remaining Extent & Portion 1 of Pretorius 531 MS-		74%	
	Schalk 542 MS-		74%	

Project Name	Tenement Number	Location	Interest	Change in quarter
	Stubbs 558 MS-		100%	
	Ursa Minor 551 MS--		74%	
	Van Heerden 519 MS--		74%	
	Portions 1, 3, 4, 5, 6, 7, 8, 9, Remaining Extent of Portion 10, Portions 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 26, 27, 29, 30, 35, 36, 37, 38, 39, 40, 41, 44, 45, 46, 48, 49, 50, 51, 52 & 54 of Vera 815 MS		74%	
	Remaining Extent of Verdun 535 MS-		74%	
	Voorburg 503 MS--		100%	
Mooiplaats Colliery and prospects	Portions 1, 9,14,17,18,19,20 & Remaining Extent of Mooiplaats 290 IT	Mpumalanga~	74%	
	Portion 2, 3 and Remaining Extent of Klipbank 295 IT		74%	
	Portions 1, 2 and Remaining Extent of Adrianople 296 IT		74%	
	Portions 2 & 3 of Willemsdal 330 IT		74%	
	Portions 2, 3, 4 & Remaining Extent) of De Emigratie 327 IT		74%	
	Remaining Extent and Portions 2, 5, 8,10 & 13 of Buhrmansvallei 297 IT		74%	
	Klipfontein 442 IT		74%	
Vele Colliery and prospect	Portions of Overvlakte 125 MS (Remaining Extent, 3, 4, 5, 6, 13, 14)	Limpopo~	100%	
	Bergen Op Zoom 124 MS		100%	
	Semple 155 MS		100%	
	Voorspoed 836 MS		100%	
	Alyth 837 MS		100%	
Tshikunda	Certain portions of Unsurveyed State Land known as Mutale	Limpopo~	60%	
Coal bed methane	Adelaide 91 MT	Limpopo~	50%	
	Adieu 118 MT		50%	
	Alicedale 138 MT		50%	
	Armstice 120 MT		50%	
	Bergwater 697 MS		50%	
	Bergwater 712 MS		50%	
	Blackstone Edge 705 MS		50%	
	Bushy Rise 702 MS		50%	
	Chapudi 752 MS		50%	
	Charlotte 90 MT		50%	
	Chase 576 MS		50%	
	Cross 117 MT		50%	
	Doppie 95 MT		50%	
	Ettie 33 MT		50%	
	Fanie 578 MS		50%	

Project Name	Tenement Number	Location	Interest	Change in quarter
	Feskraal 85 MT		50%	
	Folorodwe 79 MT		50%	
	Fripp 645 MS		50%	
	Gray 189 MT		50%	
	Hetty 93 MT		50%	
	Jeannette 77 MT		50%	
	Joffre 584 MS		50%	
	Kalkbult 709 MS		50%	
	Laura 115 MT		50%	
	Lukin 643 MS		50%	
	Magazasand 123 MT		50%	
	Malapchani 659 MS		50%	
	Mountainview 706 MS		50%	
	Mount Stuart 153 MT		50%	
	Nakab 184 MT		50%	
	Naus 178 MT		50%	
	Neltox 92 MT		50%	
	Phantom 640 MS		50%	
	Prince's Hill 704 MS		50%	
	Queensdale 707 MS		50%	
	Riet 182 MT		50%	
	Rochdale 700 MS		50%	
	Rynie 158 MT		50%	
	Salaita 188 MT		50%	
	Schuitdrift 179 MT		50%	
	Septimus 156 MT		50%	
	Stayt 183 MT		50%	
	Suzette 32 MT		50%	
	Tanga 648 MS		50%	
	Telema 190 MT		50%	
	Terblanche 155 MT		50%	
	Trevenna 119 MT		50%	
	The Duel 186 MT		50%	
	Truida 76 MT		50%	
	Van Deventer 641 MS		50%	
	Wendy 86 MT		50%	
	Wildgoose 577 MS		50%	
	Windhoek 649 MS		50%	
	Zisaan 31 MT		50%	
	Ziska 122 MT		50%	
	Portion of Unsurveyed state land		50%	

- \* Form part of the Greater Soutpansberg Project
- Lapsed – Mining Right Application Lodged
- Valid – Mining Right Application Lodged
- ~ Tenement located in the Republic of South Africa
- ^ Tenement located in Western Australia

# CoAL's interest will reduce to 74% owned on completion of the Broad Based Economic Empowerment transaction

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