



## ANNOUNCEMENT

28 January 2016

### REPORT FOR THE QUARTER ENDED 31 December 2015

## Progress on Regulatory Licenses and the acquisition of Universal Coal

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 December 2015. 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 (FY2016 Q1: nil).
- The Integrated Water Use Licence (“IWUL”) for its Vele Colliery in the Limpopo Province has been renewed for a further twenty years.
- IWUL for its Makhado Project has been granted by the Department of Water and Sanitation (“DWS”) for a period of 20 years.
- The South African Minister of the Department of Environmental Affairs (“DEA”), has dismissed the Appeal against the Environmental Authorisation (“EA”) Amendment for the Vele Colliery in the Limpopo Province.
- The Company awarded the Optimisation Study and Front End Engineering and Design (“FEED”) package for Makhado Colliery to DRA Project South Africa (“DRA”).
- The Company signed a non-binding Memorandum of Understanding (“MOU”) with Qingdao Hengshun Zhongsheng Group Co Ltd (“Hengshun”) with respect to a proposed equity investment in Baobab Mining and Exploration (Pty) (“Baobab”) a subsidiary of CoAL. Baobab is the subsidiary of CoAL that owns the Mining right for the Makhado Project.

#### Corporate and Financial Features

- The Company agreed the terms of a recommended Offer to be made by CoAL for the entire issued and to be issued share capital of Universal Coal Plc (“Universal”).
- Available cash at period end was US\$31.1million and restricted cash of \$1.018 million.

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Commenting today, Mr David Brown, Chief Executive Officer said: “The regulatory progress and project development achievements during the last quarter have reiterated the Company’s commitment to the execution of its short and medium term strategy. The MOU with Hengshun is an important milestone in the identification of a strategic investor for the development of the Company’s flagship Makhado Project. Hengshun has commenced due diligence on the Makhado Project and has expressed its interest to acquire an interest in the project and provide facilitated debt. In addition the potential acquisition of Universal will transform the Company into a mid-tier producer”

## **QUARTERLY COMMENTARY**

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

The Makhado Project recorded no LTIs (FY2016 Q1: nil) during the quarter.

Makhado’s 26-month construction phase is expected to begin during H2 CY2016, with a further four month ramp-up phase resulting in the production of 5.5 million tonnes per annum (“Mtpa”) of saleable product. During the quarter the Optimisation study and FEED was awarded to the International engineer and project delivery group DRA. The study follows on the original works performed by DRA during the Definitive Feasibility Study completed in 2013 and includes the infrastructure components of the project, and also the integration of the work of a number of specialist consultants.

The Company has officially been granted an IWUL for a period of 20 years concluding all regulatory approvals for the Makhado Project. The award of the IWUL for Makhado further signifies government’s commitment to the flagship project, and its potential to foster socio economic transformation.

An interim court interdict seeking to halt any mining or construction activity was issued against the Makhado Project during Q2 FY2014. The matter was heard in the North Gauteng High Court on 3 December 2015 with judgement handed down on Tuesday 8 December 2015 on two matters. The first relates to the condition to compel CoAL to conduct a Strategic Regional Impact Assessment and secondly a review of the Environmental Authorisation. The condition compelling CoAL to conduct a Strategic Regional Impact Assessment has been set aside. The interim interdict against the Environmental Authorisation remains in place pending the review of the authorisation.

CoAL does not anticipate that the process will affect Makhado’s construction timetable.

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

The Mooiplaats thermal coal colliery was placed on care and maintenance during the September 2013 quarter and recorded no LTIs during the period (FY2016 Q1: nil).

During the quarter the Company continued discussions with other potential purchasers and is assessing options regarding a transaction at the colliery.

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

The Vele coking and thermal coal colliery (“Vele Colliery”) recorded no LTIs during the quarter (FY2016 Q1: nil).

The original Vele Colliery IWUL, valid until March 2016, has been renewed for a further 20 years, and also amended in line with the requirements for the Plant Modification Project (PMP) at the Colliery.

During H2 2015, the Company commenced a process to obtain approval relating to a non-perennial stream diversion. This decision is anticipated in H2 2016. Once this regulatory approval in respect of the Colliery has been received, the final decision to proceed with the PMP will be placed before the board, which will include an assessment of forecast global coal prices.

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

The MbeuYashu Project recorded no LTIs (FY2016 Q1: nil) during the period.

No other significant matters to report.

### **Corporate**

During the quarter the Company entered into a MOU with Hengshun with respect to a proposed equity investment in Baobab a subsidiary of CoAL. Baobab is the legal owner of the mining right for the Makhado Project. Hengshun is an industrial conglomerate incorporated in Qingdao, Shandong Province, China and listed on the Shenzhen Stock Exchange.

The current MOU includes the following commercial considerations:

- 1) Hengshun proposes to acquire up to 34% of Baobab at a mutually agreed consideration. The preliminary terms of negotiation between both parties are based on an indicative cash acquisition price of approximately US\$113.94 million which implies a Makhado Project value of at least US\$335

million. The final transaction valuation would be subject to both parties' negotiation, a valuation report issued by an internationally reputable accounting firm and the conclusion of a formal subscription and sale agreement between both parties.

- 2) The proposed equity investment is subject to an Engineering, Procurement and Construction contract ("EPC") being awarded to Hengshun. The value of the EPC contract is approximately US\$400 million, but will be confirmed by the completion of a Front End Engineering and Design which will be completed in H1 CY 2016.
- 3) The equity investment is subject to a formal due diligence process as well as approval of the transaction from both the CoAL and Hengshun boards respectively.
- 4) The 34% equity investment will entitle Hengshun to nominate a to be agreed number of directors to the board of Baobab, but the effective management of Baobab and operatorship of the Makhado project will remain the responsibility of CoAL.
- 5) A debt package may also be provided by Hengshun on commercial arm's length terms.
- 6) Hengshun has the right to match any alternative proposals for the provision of the mining contract.
- 7) The MOU is a non-binding document which is also subject to CoAL shareholder and any other necessary regulatory approvals.

In November 2015 the Company announced the terms of a recommended Offer to be made by CoAL for the acquisition of Universal Coal. The Company has previously communicated its intention to acquire a cash generating project to boost the Company cash flow during the construction of the Makhado Project. The Universal transaction has been identified as a value enhancing investment and will provide the enlarged group with immediate coal production and cash flow as well as a diversified portfolio of production, development and exploration projects with expected synergies to the existing CoAL business. Successful completion of the Offer will create a balanced and focused South African coal miner.

CoAL has received signed statements of intent to accept the Offer from Universal Shareholders (including the Independent Universal Directors) in respect of 202 768 708 Universal Shares, representing 40.1 per cent. Of Universal's total issued share capital, including Coal Development Holdings B.V., Universal's second largest shareholder with an interest of approximately 28.4% of Universal's total issued share capital. Each of these Universal Shareholders has also stated their intention to elect for the Loan Note Alternative in respect of their entire holding of Universal Shares. The Company has agreed that it requires a minimum of 50.1% acceptance of the offer in order for the acquisition to be committed.

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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