

CZA - Coal of Africa Limited - Report for the December 2008 quarter

Coal of Africa Limited

(previously, "GVM Metals Limited")

(Incorporated and registered in Australia)

(Registration number ABN 008 905 388)

Share code on the JSE Limited: CZA

ISIN AU000000CZA6

Share code on the Australian Stock Exchange Limited: CZA

ISIN AU000000CZA6

('CoAL' or 'the Company')

REPORT FOR THE DECEMBER 2008 QUARTER

Coal of Africa Limited ('CoAL' or 'the Company') is pleased to announce its operational report for the quarter ended 31 December 2008. A full copy of this report, as released today on the ASX, AIM and JSE, is available at the Company's website, www.coalofafrica.com.

Highlights

- * Delivery and commissioning of the first two continuous miners at the Mooiplaats thermal coal project ("Mooiplaats Project") with development of the required infrastructure on schedule.
- * Production of first run of mine coal at the Company's Mooiplaats Project.
- * Completion of negotiations with Transnet Freight Rail securing rail allocation for the transport of coal from the Company's Mooiplaats Project.
- * Lodging of a New Order Mining Right ("NOMR") Application with the Department of Minerals and Energy ("DME") for the Vele coking coal project ("Vele Project") in Limpopo.
- * Revision of the Vele Project mining plan to include open cast as well as underground sections thereby improving the coking coal yield, significantly reducing mining costs and extending the life of the mine.
- * Tenders submitted jointly with Independent Power Producers for the Eskom base load power programme for both the Vele and Makhado coking coal projects, were unconditionally pre-qualified.
- * Extension of Black Economic Empowerment agreement to 30 April 2009 ensuring the Company complies with South African legislative requirements for mining companies.
- * Appointment of Dr Pierre Leonard, ArcelorMittal's nominee, as a Non-Executive Director of CoAL.
- * Cash balance at the end of the quarter of A\$202 million - the Company has no debt.

Commenting on the results today, Simon Farrell, Managing Director of CoAL, said, "The Company's coal projects continued to be developed

according to schedule. I am pleased to announce that coal was extracted from the Mooiplaats thermal coal project during the quarter with further significant development of the project due to take place in the next quarter. Despite the challenging global economic conditions, CoAL's cash position and the absence of debt ensures the Company remains well placed to bring the Mooiplaats thermal coal project and the Vele and Makhado coking coal projects into production within the next two years. "

DISCUSSION OF RESULTS

Mooiplaats Thermal Coal Project - Ermelo Coalfield (100% owned)

The development of the box-cut and surface infrastructure is progressing according to plan despite seasonal rainfall and as per the initial schedule, the washing plant is due to be commissioned in March 2009. During the quarter, the Company took delivery of two continuous miners allowing for the production of the first run of mine coal. The development of the underground mining portals is at an advanced stage with production from these due to commence by the end of Q1 2009 followed by the first coal sales in Q2 2009.

Stabilisation of the decline ramp floor and side walls has been completed and over 150 metres of the incline conveyor belt structure has been installed with commissioning on track for the next quarter.

Negotiations with Transnet Freight Rail ("TFR") for rail services for the transport of coal to the Richards Bay dry bulk terminal are complete and the Company has secured a five year rail agreement for the movement of coal from the Mooiplaats Project. TFR has allocated CoAL the current empty wagons returning from ArcelorMittal's Vanderbijlpark steel works ensuring the Company will be able to satisfy its initial 900,000 tonne per annum dry bulk terminal port allocation and will allocate further wagons to enable the total targeted 3 million tonnes per annum of coal export to be handled through Richards Bay in the event of terminal expansion plans proceeding.

Discussions are continuing with various parties regarding long term off-take agreements for the export of thermal coal mined at Mooiplaats, together with the short and long term lean coal production. In addition, the initial letter of offer for the sale of lower quality thermal coal has been submitted to Eskom with discussions thereof expected to be concluded by the time export sales commence in Q2 2009.

Vele Coking Coal Project - Tuli Coal Field (74% owned)

The NOMR Application for the Vele Project was lodged and the Environmental Scoping Report was submitted to the DME during the

quarter. Specialist studies for the Environmental Impact Assessment and Environmental Management Plan are almost complete and are due to be submitted during Q1 2009. Furthermore, an application to amend the Vele Project New Order Prospecting Right was submitted to the DME so as to facilitate the extraction of a bulk sample of 5,000 tonnes of coal from a box-cut for extensive testing and analysis by ArcelorMittal.

Drilling on the three bulk sample drill sites has been completed and the washability tests on the core samples finalised with further detailed analysis underway. The current drilling programme will better define the site of the proposed bulk sample box-cut, with the remaining 12 holes due to be completed early in 2009. This work, over and above improving the drilling density and resource modelling, will assist in assessing the roof stability, presence of faulting and continuity of the select mining horizon. CoAL will advise the market once all testing has been completed and the results received.

During the quarter, the preliminary Vele Project mine production schedule was revised to include both underground and open cast sections. The revised schedule will potentially deliver significantly improved coking coal yields with substantially reduced mining costs and an extended mine life to beyond 2040.

Negotiations with surface rights owners on the Vele Project have been finalised allowing for the development of the required infrastructure and bulk sample box-cut once legislative approval for the sample has been granted.

Subject to the granting of the New Order Mining Right, which was submitted to the Department of Minerals and Energy in October of 2008, the Vele project remains on schedule for mining to commence in the second half of 2009.

Makhado Coal Project - Soutpansberg Coal Field (100% owned)

Exploration drilling totalling over 3,400 metres was completed during the quarter resulting in the commencement of a large diameter drilling ("LDD") programme. The 20 hole LDD programme focused on three sites and by the end of December, 12 holes had been completed. Results of core analysed by laboratories yielded good quality hard coking coal and full results of this programme are expected in Q2 2009.

The NOMR Application is almost complete and significant progress is being made on the Environmental Scoping Report, the Environmental Impact Assessment and Environmental Management Plan, all of which will be submitted to the DME once Section 11 approval has been received for the Rio Tinto farm swap. Negotiations with surface

rights owners have commenced and will be finalised pending the approval of the farm swap.

As previously announced, current planning and project progress suggests that the Vele Project will be commissioned first, followed by the Makhado Project approximately 12 months thereafter. Importantly, the ultimate timing of these projects remains a function of the NOMR's being granted.

Holfontein Coal Project (100%)

In late December, the Company agreed to terminate the agreement whereby Lachlan Star Limited ("Lachlan Star") would acquire 100% of the Holfontein Project as Lachlan Star failed to acquire the necessary shareholder approval. A NOMR Application for the Holfontein Project has been submitted to the DME and CoAL will continue to add value to the project.

Extension of BEE Agreement

The agreement with Coal Investments Limited ("CIL") whereby CIL would subscribe for CoAL shares and be granted an option which, if exercised, would result in CIL, African Global Capital I, L.P. ("AGC") and their affiliates holding in excess of 26% of the Company's shares, was extended to 30 April 2009. AGC is a private equity initiative involving Mvelphanda Holdings (Pty) Ltd, OZ Management LP (an operating entity of Och-Ziff Capital Management LLC (NYSE: OZM) and Palladino Holdings Ltd.

When implemented, the agreement will ensure that CoAL is fully compliant with South African legislation requiring black empowered groups ("BEE Groups") to hold more than 26% of a mining company's equity by 2014. CIL, AGC and their affiliates agreed to use commercially reasonable endeavours to transfer their holdings in the Company to a BEE Group by the amended date.

IPP Submissions Pre-Qualified by Eskom

Both of CoAL's independent base load generation tenders submitted jointly with Independent Power Producers ("IPP"), whereby the IPP will supply Eskom with base load power, have been unconditionally pre-qualified by Eskom. Submission to supply coal to the proposed IPP located close to the Vele Project was made jointly with Mulilo Energy (Pty) Ltd and China Railway Construction Corporation, and with AES Energy Developments for an IPP in the proximity of the Makhado coking coal project. In both cases the coal supplied would be a "middlings" product, a lower quality coal produced additional to the coking coal. The economics of the Vele and Makhado coking coal projects are not reliant on the sale of the middlings fraction but if successful, this would provide substantial upside to the

projects.

Nimag Group of Companies (100%)

Where possible, costs have been reduced as the Nimag Group continues to experience difficult trading conditions due to the depressed global conditions. The Nimag Group is considered a non-core asset and CoAL continues to review all its strategic options in relation to this asset.

Authorised by

Simon Farrell

Managing Director

19 January 2009

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About CoAL:

Coal of Africa Limited ("CoAL") is primarily focused on the acquisition, exploration and development of metallurgical and thermal coal projects. The Company's key projects, along with its leading metals processing company NiMag Group (Pty) Ltd are in South Africa. The Company was incorporated in Western Australia and listed in 1980. Since 2005, the Company has also listed on both the AIM and JSE markets, allowing further growth in the Company's coal assets.

www.coalofafrica.com

Rule 5.3

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98,
30/9/2001.

Name of entity

of Africa Limited

ABN

Quarter ended
("current quarter")

8 905 388

31 December 2008

Consolidated statement of cash flows

| Cash flows related to operating activities | | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|--|----------------------------|---------------------------------------|
| 1.1 | Receipts from product sales and related debtors | 1,787 | 3,708 |
| 1.2 | Payments for | | |
| | (a) exploration and evaluation | (2,282) | (4,516) |
| | (b) development | (7,891) | (12,051) |
| | (c) production | (4,942) | (10,500) |
| | (d) administration | (4,923) | (11,499) |
| 1.3 | Dividends received | | |
| 1.4 | Interest and other items of a similar nature received | 4,735 | 6,837 |
| 1.5 | Interest and other costs of finance paid | (180) | (383) |
| 1.6 | Income taxes paid | - | - |
| 1.7 | Other | | |
| | Net Operating Cash Flows | (13,695) | (28,404) |
| Cash flows related to investing activities | | | |
| 1.8 | Payment for purchases of: | | |
| | (a) prospects | - | - |
| | (b) equity investments | - | (6,191) |
| | (c) other fixed assets | (22,396) | (25,001) |
| 1.9 | Proceeds from sale of: | | |
| | (a) prospects | - | - |
| | (b) equity investments | - | - |
| | (c) other fixed assets | - | - |
| 1.10 | Loans to other entities | - | - |
| 1.11 | Loans repaid by other entities | - | - |
| 1.12 | Other (provide details if material - Note 6) | - | (23,296) |
| | Net investing cash flows | (22,396) | (54,488) |
| 1.13 | Total operating and investing cash flows (carried forward) | (36,091) | (82,892) |
| | | | |

| | | | |
|------|--|----------------|----------------|
| 1.13 | Total operating and investing cash flows (brought forward) | (36,091) | (82,892) |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares, options, etc.(net) - see note 7.4 below | - | 33,451 |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | - | - |
| 1.17 | Repayment of borrowings | - | - |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other (Exchange rate related movements in foreign borrowings and reserves) | - | - |
| | Net financing cash flows | - | 33,451 |
| | Net increase (decrease) in cash held | (36,091) | (49,441) |
| 1.20 | Cash at beginning of quarter/year to date | 238,543 | 252,005 |
| 1.21 | Exchange rate adjustments to item 1.20 | 71 | (41) |
| 1.22 | Cash at end of quarter | 202,523 | 202,523 |

+ See chapter 19 for defined terms

PAYMENTS TO DIRECTORS OF THE ENTITY AND ASSOCIATES OF THE DIRECTORS

Payments to related entities of the entity and associates of the related entities

| | | Current quarter \$A'000 |
|------|--|----------------------------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | 662 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | - |
| 1.25 | Explanation necessary for an understanding of the transactions | |

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

| |
|--|
| |
|--|

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Financing facilities available

Add notes as necessary for an understanding of the position.

| | Amount available \$A'000 | Amount used \$A'000 |
|---------------------------------|--------------------------------|---------------------------|
| 3.1 Loan facilities | - | - |
| 3.2 Credit standby arrangements | 4,637 | 2,151 |

Estimated cash outflows for next quarter

| | \$A'000 |
|--------------------------------|-----------------|
| 4.1 Exploration and evaluation | (1,500) |
| 4.2 Development | (45,000) |
| Total | (46,500) |

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

| | Current quarter \$A'000 | Previous quarter \$A'000 |
|--|-------------------------------|--------------------------------|
| 5.1 Cash on hand and at bank | 2,311 | 3,902 |
| 5.2 Deposits at call | 202,363 | 236,924 |
| 5.3 Bank overdraft | (2,151) | (2,283) |
| 5.4 Other (provide details) | - | - |
| Total: cash at end of quarter (item 1.22) | 202,523 | 238,543 |

Changes in interests in mining tenements

| | Tenement reference | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|---|-----------------------|--|--|----------------------------------|
| 6.1 Interests in mining tenements relinquished, reduced or lapsed | | | | |
| 6.2 Interests in mining tenements acquired or increased | Tenement reference | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

| | | Total number | Number quoted |
|------|--|-----------------|------------------|
| 7.1 | Preference +securities (<i>description</i>) | | |
| 7.2 | Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | |
| 7.3 | +Ordinary securities | 411,375,378 | 411,375,378 |
| 7.4 | Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy- backs | | |
| 7.5 | +Convertible debt securities (<i>description</i>) | | |
| 7.6 | Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | |
| 7.7 | Options (<i>description and conversion factor</i>) | 20,880,802 | Nil |
| 7.8 | Issued during quarter | 1,650,000 | Nil |
| 7.9 | Exercised during quarter | Nil | Nil |
| 7.10 | Expired during quarter | Nil | Nil |
| 7.11 | Debentures (<i>totals only</i>) | | |
| 7.12 | Unsecured notes (<i>totals only</i>) | | |

Issued and quoted securities at end of current quarter

(Continued)

| | | Issue price per security (see note 3) (cents) | Amount paid up per security (see note 3) (cents) |
|-----|--|--|---|
| 7.1 | Preference +securities (<i>description</i>) | | |
| 7.2 | Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | |
| 7.3 | +Ordinary securities | | |

| | | | |
|------|--|--|----------------------------------|
| 7.4 | Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | | |
| 7.5 | *Convertible debt securities (description) | | |
| 7.6 | Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | |
| 7.7 | Options (description and conversion factor) | Exercise price See Note 7 | Expiry date See Note 7 |
| 7.8 | Issued during quarter | Exercise price See Note 7 | Expiry date See Note 7 |
| 7.9 | Exercised during quarter | | |
| 7.10 | Expired during quarter | | |
| 7.11 | Debentures (totals only) | | |
| 7.12 | Unsecured notes (totals only) | | |

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: (Director)
Print name: Simon Farrell

Date: 19 January 2009

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining

tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

- 3 **Issued and quoted securities:** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.
- 6 The \$A26,123,000 recorded in 1.12 of the cash flow reflects cash paid in relation to logistics development for CoAL's Makhado and Vele projects. These payments are deposits for port allocation for the export of coal from the Maputo terminal in Mozambique.
- 7 Issued and Quoted Options as at 31 December 2008:

| Number Issued | Number Quoted | Exercise Price | Expiry Date | Lapsed Since End of quarter |
|------------------|------------------|-------------------|----------------------|--------------------------------------|
| 9,250,000 | - | A\$0.50 | 30 September 2011 | - |
| 196,688 | - | GBP0.34 | 17 May 2009 | - |
| 7,000,000 | - | A\$1.25 | 30 September 2012 | - |
| 934,114 | - | GBP0.65 | 30 November 2009 | - |
| 250,000 | - | A\$2.05 | 1 May 2012 | - |
| 1,000,000 | - | A\$1.90 | 30 September 2012 | - |
| 600,000 | - | A\$1.25 | 1 May 2012 | - |
| 1,650,000 | - | A\$3.25 | 31 July 2010 | - |

Sponsor

PricewaterhouseCoopers Corporate Finance (Pty) Ltd