



COAL of AFRICA LIMITED

ACN 008 905 388

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**NOTICE OF GENERAL MEETING**

**EXPLANATORY STATEMENT**

**PROXY FORM**

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**Date of Meeting**

14 October 2010

**Time of Meeting**

3.00pm (WST)

**Place of Meeting**

The Park Business Centre  
45 Ventnor Avenue  
West Perth WA 6005

*This is an important document. Please read it carefully.*

*If you are unable to attend the General Meeting, please complete the Proxy Form enclosed and return it in accordance with the instructions set out on the Proxy Form.*

## **TIME AND PLACE OF MEETING AND HOW TO VOTE**

### **Venue**

A General Meeting of the shareholders of Coal of Africa Limited will be held at:

**The Park Business Centre  
45 Ventnor Avenue, West Perth  
Western Australia**

**Commencing at  
3.00pm (WST)  
on 14 October 2010**

### **How to Vote**

You may vote by attending the meeting in person, by proxy or authorised representative.

### **Voting in Person**

To vote in person, attend the meeting on the date and at the place set out above. The meeting will commence at 3.00pm (WST).

### **Voting by Proxy**

To vote by proxy, please complete and sign the Proxy Form enclosed with this Notice of General Meeting as soon as possible and either:

- send the Proxy Form by facsimile to the Company on facsimile number (08) 9322 6778 (International: +61 8 9322 6778); or
- deliver or post the Proxy Form to the principal office of the Company at Level 1, 173 Mounts Bay Road, Perth, Western Australia.

so that it is received by no later than 48 hours before the commencement of the meeting.

**Your Proxy Form is enclosed.**

# NOTICE OF GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a General Meeting of the shareholders of Coal of Africa Limited ABN 98 008 905 388 (“**the Company**”) will be held at The Park Business Centre, 45 Ventnor Avenue, West Perth, Western Australia on 14 October 2010 at 3.00pm (WST), for the purpose of transacting the following business referred to in this Notice of General Meeting (“**Notice**”).

The Explanatory Statement that accompanies and forms part of this Notice (“**Explanatory Statement**”) describes the matters to be considered at this meeting. Capitalised terms used in this Notice and the Explanatory Statement are defined in the glossary at the end of the Explanatory Statement.

## ORDINARY BUSINESS

### *Resolution 1: Adoption of Constitution*

To consider and, if thought fit, to pass with or without amendment, the following resolution as a **special resolution**:

*“That, pursuant to section 136 of the Corporations Act 2001 (Cth), the Constitution contained in the document submitted to this meeting and signed by the Chair for identification purposes be approved and adopted as the Constitution of the Company in substitution for the existing Constitution of the Company subject to and with effect from admission of the Company's shares to the Official List of the UK Financial Services Authority and to trading on the Main Market of the London Stock Exchange.”*

### *Resolution 2: Adoption of Employee Share Option Plan*

To consider and, if thought fit, to pass with or without amendment the following resolution as an **ordinary resolution**:

*“That subject to and with effect from admission of the Company's shares to the Official List of the UK Financial Services Authority and to trading on the Main Market of the London Stock Exchange:*

- (a) the Coal of Africa Limited Employee Share Option Plan (the “**Plan**”), the principal features of which are summarised in Appendix 1 and the draft rules of which have been produced to the Meeting and for the purposes of identification only initialled by the Chair is adopted;*
- (b) the directors are authorised to do all acts and things necessary to carry the Plan into effect including the making of any changes to the rules of the Plan as may be necessary to obtain any approvals the directors consider necessary or desirable to obtain and/or to comply with London Stock Exchange requirements and/or institutional requirements; and*
- (c) pursuant to and in accordance with ASX Listing Rule 7.2, Exception 9 and for all other purposes, the Company approves the issue of securities under the Plan, as an exception to ASX Listing Rule 7.1.”*

<p>The Company will disregard any votes cast on Resolution 2 by a Director of the Company and any person associated with those persons. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.</p>
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### **Resolution 3 – Increase in Directors’ Fees**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, pursuant to and in accordance with Listing Rule 10.17 and for all other purposes, the maximum aggregate Directors’ fees payable to non-executive Directors be increased from \$300,000 per annum to \$1,000,000 per annum.”*

The Company will disregard any votes cast on Resolution 3 by a Director of the Company and any associate of a Director. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or it is cast by the person chairing the meeting as proxy for a person entitled to vote, in accordance with a direction on a proxy form to vote as the proxy decides.

### **Resolution 4 – Grant of Options to David Murray**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, pursuant to and in accordance with section 208 of the Corporations Act and Listing Rule 10.11 and for all other purposes, the Directors be and are hereby authorised to grant and issue up to 2,500,000 Options for no consideration, each Option having an exercise price equal to the volume weighted average price of the Company’s shares 10 trading days prior to the issue date and an expiry date 5 years from the date of issue, 1,000,000 of which will vest 12 months after the date of issue, 750,000 of which will vest 24 months after the date of issue and the remaining 750,000 vesting 36 months from the date of issue, to David Murray or his nominees, on the terms and conditions set out in the Explanatory Statement (including Appendix 2 to the Explanatory Statement).”*

The Company will in accordance with section 224 of the Corporations Act disregard any votes cast on Resolution 4 by David Murray and any associate of David Murray. However, the Company need not disregard a vote if:

- (a) it is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution; and
- (b) it is not cast on behalf of David Murray or an associate of David Murray.

### **Resolution 5: Ratification of Issue of Shares**

To consider and, if thought fit, to pass with or without amendment, the following resolution as an **ordinary resolution**:

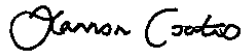
*"That, for the purpose of Listing Rule 7.4 of the Listing Rules of the ASX and for all other purposes, the Company ratify the allotment and issue of 50,000,000 Shares at an issue price GBP1.10 each and on the terms and conditions set out in the Explanatory Statement that forms part of this Notice."*

The Company will disregard any votes cast on Resolution 5 by any of the persons who participated in the issue the subject of Resolution 5 and any associate of any of those persons. However, the Company need not disregard a vote if the vote is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or the vote is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**Other business**

To deal with any other business which may be brought forward in accordance with the Constitution and the Corporations Act.

**BY ORDER OF THE BOARD**

A handwritten signature in black ink, appearing to read "Shannon Coates". The signature is written in a cursive, flowing style.

**Shannon Coates**  
*Company Secretary*  
**Dated: 24 August 2010**

## PROXIES

1. Votes at the General Meeting may be given personally or by proxy, attorney or representative.
2. A member entitled to attend and vote is entitled to appoint not more than two proxies to attend and vote on behalf of the member. A proxy need not be a member of the Company, but must be a natural person (not a corporation). A proxy may also be appointed by reference to an office held by the proxy (eg “the Company Secretary”).
3. Where more than one proxy is appointed, each proxy may be appointed to represent a specified proportion of the member’s voting rights. If no such proportion is specified, each proxy may exercise half of the member’s votes.
4. A proxy form is enclosed. A separate form must be used for each proxy. An additional form can be obtained by writing to the Company at Level 1, 173 Mounts Bay Road, Perth, Western Australia or by fax to +61 8 9322 6778. Alternatively, you may photocopy the enclosed form.
5. A duly completed proxy form and (where applicable) any power of attorney or a certified copy of the power of attorney must be received by the Company at its registered office or the address or fax number set out below, not less than 48 hours before the time for commencement of the meeting. Please send by post to Level 1, 173 Mounts Bay Road, Perth, Western Australia 6000 or by fax to +61 8 9322 6778.
6. The Company will accept proxy appointments by a corporate member executed in accordance with either section 127(1) (not under seal) or section 127(2) (under seal) of the Corporations Act.
7. For the purposes of section 1074E(2) of the Corporations Act 2001 and regulation 7.11.37 of the Corporations Regulations 2001, the Company determines that members holding ordinary Shares at the close of business (Perth time) on 12 October 2010 will be entitled to attend and vote at the General Meeting.
8. If the proxy form specifies a way in which the proxy is to vote on any of the resolutions stated above, then the following applies:
  - (a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way;
  - (b) if the proxy has 2 or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands;
  - (c) if the proxy is Chair, the proxy must vote on a poll and must vote that way; and
  - (d) if the proxy is not the Chair, the proxy need not vote on a poll, but if the proxy does so, the proxy must vote that way.

If a proxy is also a shareholder, the proxy can cast any votes the proxy holds as a shareholder in anyway that the proxy sees fit.

9. The Explanatory Statement attached to this Notice forms part of this Notice. Capitalised terms used in this Notice are defined in the Explanatory Statement.

## EXPLANATORY STATEMENT

This Explanatory Statement is intended to provide shareholders with sufficient information to assess the merits of the Resolutions contained in the preceding Notice of General Meeting of the Company.

The Explanatory Statement and all attachments are important documents. They should be read carefully. The Directors recommend shareholders read this Explanatory Statement in full before making any decision in relation to the Resolutions.

Capitalised terms used in the Notice and in this Explanatory Statement are defined in the glossary at the end of this Explanatory Statement.

### RESOLUTION 1 – ADOPTION OF CONSTITUTION

Resolution 1 asks shareholders to approve a special resolution to adopt a new Constitution in substitution for the existing Constitution of the Company. As announced on 29 October 2009, the Company intends to move from the AIM market operated by the London Stock Exchange plc ("**LSE**") to a primary listing and admission of its share capital to the Official List of the UK Financial Services Authority ("**FSA**") and to trading on the LSE's main market for listed securities ("**Admission**"). In seeking Admission, it is necessary for the Company to adopt a new Constitution which is consistent with the listing rules of the FSA (the "**UK Listing Rules**"). Should Resolution 1 be passed, the new Constitution will only take effect from Admission, which is expected to take place in the latter half of the 2010 calendar year.

The Company's present Constitution was first adopted on 30 November 2004. The new Constitution complies with the ASX Listing Rules and with the Corporations Act and is consistent with constitutions for publicly listed companies in Australia. As noted above, the new Constitution also complies with the UK Listing Rules.

Copies of the current and proposed Constitution are available for perusal by shareholders at the Company's registered office or via the internet at [www.coalofafrica.com](http://www.coalofafrica.com).

The Constitution proposed to be adopted is substantially similar to the present Constitution but differs from the present Constitution in the following material respects:

#### *General*

In general, the proposed Constitution updates the current Constitution, which contains some references to the Corporations Act which are now out of date. As noted above, the proposed Constitution is consistent with the UK Listing Rules. Further, as the Company intends to delist from ASX, the proposed Constitution no longer includes provisions in the current Constitution which were specific to the ASX Listing Rules, including provisions dealing with restricted securities and marketable parcels.

#### *Incorporation of pre-emption rights for existing shareholders*

A requirement of the UK Listing Rules is that a company's constitution includes pre-emption rights for shareholders for new issues of securities. Key provisions provide:

1. that subject to specified exceptions, the Company may not allot Shares or other securities to any person without first offering them to existing shareholders pro rata to their existing holdings;

2. exceptions to the pre-emption rights would apply for bonus issues, issues for non-cash consideration (eg: as part of the purchase price for an acquisition) and for issues under shareholder approved employee share or options schemes;
3. a process by which offers of securities to existing shareholders must be made and response dealt with; and
4. the ability to modify or disapply pre-emption rights for particular Share issues by special resolution.

### ***Fractional entitlements***

The proposed Constitution contains provisions dealing with the right of the Directors to sell fractional entitlements to Shares arising as a result of a consolidation or sub-division of Shares. Under this provision, the Directors may sell the Shares representing fractions to any person for the best price reasonably obtainable and must distribute the net proceeds of sale amongst the shareholders entitled to those fractions in due proportions. However, if the value of a fractional entitlement to a Share is less than £3.00 (or such lesser amount as determined by the Directors) and the Company has by ordinary resolution given its consent, the net proceeds of sale of such a fractional entitlement shall belong to the Company. The current Constitution does not contain such a provision.

### ***Proportional takeovers***

The proposed Constitution contains provisions dealing with proportional takeover bids for the Company's Shares in accordance with the Corporations Act. The current Constitution does not contain such a provision. The provisions are designed to assist shareholders to receive proper value for their Shares if a proportional takeover bid is made for the Company. Under the Corporations Act, the provisions must be renewed every three years or they will cease to have effect. The Corporations Act requires that the following information be provided to shareholders when they are considering the inclusion of proportional takeover provisions in a constitution.

#### ***1. Effect***

A proportional takeover bid is one where the offer made to each shareholder is only for a proportion of that shareholder's Shares. If a proportional takeover bid is made, Directors must hold a meeting of the shareholders of the class of Shares being bid for to consider whether or not to approve the bid. A resolution approving the bid must be voted on before the 14th day before the end of the bid period. The resolution will be passed if more than 50% of votes in the class the subject of the bid are cast in favour of the approval. The bidder and its associates are not allowed to vote on the resolution. If no such resolution is voted on by that deadline, a resolution approving the bid is taken to have been passed.

If a resolution to approve the bid is rejected, binding acceptances or offers are required to be rescinded, and all unaccepted offers and offers failing to result in binding contracts are taken to have been withdrawn.

If the bid is approved or taken to have been approved, the transfers resulting from the bid may be registered provided they comply with other provisions of the Corporations Act and the Company's Constitution. The proportional takeover provisions do not apply to full takeover bids.

#### ***2. Reasons***

Without the proportional takeover approval provisions, a proportional takeover bid may enable control of the Company to pass without shareholders having the opportunity to sell all their Shares to the bidder. Shareholders may be exposed to the risk of being left as a minority in the Company and the



risk of the bidder being able to acquire control of the Company without payment of an adequate control premium for their Shares.

The proposed proportional takeover provisions lessen this risk because they allow shareholders to decide whether a proportional takeover bid is acceptable and should be permitted to proceed.

*3. No knowledge of any acquisition proposals*

At the date of this Notice, no Director of the Company is aware of any proposal by any person to acquire, or to increase the extent of, a substantial interest in the Company.

*4. Potential advantages and disadvantages*

The Corporations Act requires that shareholders be given a statement of the potential future advantages and disadvantages of the provisions. The Directors of the Company consider that the proposed adoption of the proportional takeover approval provisions has no potential advantages or potential disadvantages for Directors because they remain free to make a recommendation on whether a proportional takeover bid should be approved.

The potential advantages of the proposed proportional takeover provisions for shareholders are:

- (a) they give shareholders their say in determining by majority vote whether a proportional takeover bid should proceed;
- (b) they may assist shareholders in not being locked in as a relatively powerless minority;
- (c) they increase shareholders' bargaining power and may assist in ensuring that any proportional bid is adequately priced; and
- (d) knowing the view of the majority of shareholders assists each individual shareholder in assessing the likely outcome of the proportional takeover bid and whether to approve or reject that offer.

Some potential disadvantages to shareholders of the Company are:

- (a) it is a hurdle and may discourage the making of proportional takeover bids in respect of the Company;
- (b) this hurdle may depress the Share price or deny shareholders an opportunity of selling their Shares at a premium; and
- (c) it may reduce the likelihood of a proportional takeover being successful.

However, the Directors do not perceive those or any other possible disadvantages as justification for not adopting the proportional takeover provisions.

***Number of Directors***

The current Constitution does not specify a maximum number of Directors the Company can have. The proposed Constitution sets a maximum number of 12 directors, though this number can be altered by the Company by ordinary resolution.

***Nomination of Directors for election***

The proposed Constitution provides that no person (other than a Director seeking re-election) shall be eligible for election to the office of Director unless they or some shareholder intending to propose their nomination has, at least 30 business days before the meeting, left at the Company's registered office a notice of the nomination and a signed consent to act as a Director. The time for notice under the current Constitution is 35 business days. In addition, the current Constitution permits the Board to recommend the appointment of a Director. There is no such power in the proposed Constitution.

### ***Vacation of office by a Director***

Under the proposed Constitution, a Director will automatically cease to be a Director in the event he becomes bankrupt or makes any arrangement or composition with creditors generally. The current Constitution does not provide for this. In addition, under the proposed Constitution, a Director will automatically cease to be a Director if he is absent for more than 6 months, without permission of the Directors, from meetings of the Directors held during that period. This period is 3 months under the current Constitution.

### ***Too few Directors***

If the number of Directors is reduced to below the number required for a quorum, then under the current Constitution, the remaining Directors may only act to appoint Directors up to the minimum number, convene a meeting of shareholders, or in emergencies. The proposed Constitution permits the remaining Directors to appoint Directors up to the minimum number and convene a meeting of shareholders, but does not permit them to act in emergencies.

### ***Alternate Directors***

Under the proposed Constitution, alternate Directors are automatically entitled to notice of Directors' meetings. Under the current Constitution, alternate Directors are only entitled to notice if the appointing Director so requests.

### ***Borrowings***

The proposed Constitution imposes a limit on the amount the Directors may borrow at any time, such limit being determined by reference to a formula set out in the proposed Constitution. No such limit is imposed under the current Constitution.

### ***Company seal and execution of documents***

The current Constitution provides that the Board must decide the manner in which negotiable documents can be executed by the Company, and provides that the Board may determine whether or not the Company has a common seal. The proposed Constitution provides that the Company may execute a document by seal (including details on the use of the seal), or without a seal if the document is signed by two Directors or a Director and a Company Secretary.

### ***Managing Director***

Under the proposed Constitution, the Directors may only appoint one Director to be Managing Director. There is no such limit under the current Constitution.

### ***Directors' power of attorney***

The proposed Constitution allows the Directors to appoint one or more people to be the attorney for the Company, by power of attorney. The current Constitution is silent on this.

### ***Director interested in a matter***

Under the current Constitution, a Director who has a material personal interest in a matter may, subject to the Corporations Act, be counted in a quorum and may vote at a Board meeting in relation to that matter. Under the proposed Constitution, the interested Director must not be present and must not vote, unless otherwise authorised by the Corporations Act.

### ***Employee's indemnity***

The proposed Constitution provides that the Company shall indemnify an employee of the Company against any liability incurred by the employee arising in relation to his employment with the Company unless the liability arose by reason of the employee's dishonesty, negligence, default, or breach of duty or trust. The current Constitution is silent on this.

### ***Auditor's indemnity***

The current Constitution gives the Company discretion as to whether or not to provide an indemnity to the auditor in respect of liability incurred as the Company's auditor. The proposed Constitution provides that the Company must provide this indemnity to the auditor.

### ***Notice of Directors' meetings***

The proposed Constitution provides that at least 24 hours notice must be given to Directors of a Directors' meeting, although the Directors may unanimously agree to shorter notice. The current Constitution provides that reasonable notice must be given.

### ***Directors' meeting by instantaneous communication devices***

Both the current and proposed Constitutions provide that a Directors' meeting may be held by instantaneous communication devices. However, the proposed Constitution further provides that a Director may not leave a Directors' meeting by disconnecting their instantaneous communication device unless he has obtained the express consent of the Chair of the meeting, and unless he has obtained such consent, he shall be deemed to have been present and to have formed part of the quorum for the meeting. The current Constitution is silent in this regard.

### ***Chairing Board meetings***

The proposed Constitution provides that where the Chair is not present within 10 minutes of the time of the meeting (the current Constitution provides for 15 minutes), the Directors present must elect one of their number to be the Chair of the meeting. In addition, the proposed Constitution provides that the Directors may elect a Vice-Chair for Board meetings. The current Constitution is silent on this.

Under the current Constitution, in the case of an equality of votes, the Chair shall have a casting vote unless only 2 Directors are entitled to vote on the matter or the Chair is not entitled to vote. In this case, the matter is decided in the negative. Under the proposed Constitution, the Chair has a casting vote unless only 2 Directors are entitled to vote on the matter. In such a case, the matter is not automatically decided in the negative.

### ***Notification of general meetings***

Under the proposed Constitution, if the Directors postpone or cancel a meeting of shareholders, they must notify the shareholders. Under the current Constitution, Directors are to notify ASX.

### ***Quorum at general meetings***

Under the proposed Constitution, if a quorum is not present 30 minutes (15 minutes under the current Constitution) after the time appointed for the meeting, the meeting, if convened upon a requisition shall be dissolved, but in any other case it shall stand adjourned sine die.

### ***Chair of general meeting***

Under the proposed Constitution, if the Company does not have a Chair, or the Chair is not present at a general meeting (or is not present within 15 minutes after the time appointed), the Directors shall elect one of their number to be Chair, failing which the shareholders shall elect one of their number to be Chair. Under the current Constitution, shareholders automatically have the right to elect a Chair for the meeting in the event the Company does not have a Chair or the Chair is not present when called.

### ***Attendance at general meetings***

In addition to shareholders, Directors and the Company's auditor, the proposed Constitution specifically provides that such person or persons as approved by the Chair are entitled to attend a general meeting.

### ***Chair's powers at a general meeting***

The current Constitution specifically sets out the powers of the Chair at a general meeting of shareholders. The proposed Constitution is silent on this. With respect to the Chair's power to postpone a general meeting, the current Constitution provides that the Chair may, and must if directed by ordinary resolution of the meeting, postpone the meeting. The proposed Constitution provides that the Chair may only postpone the meeting with the consent of the general meeting, and must do so if directed by the general meeting. In addition, the proposed Constitution provides that where a general meeting is postponed for 30 days or more, notice of the resumption of the meeting shall be given in the same manner as for the original general meeting, but otherwise it is not necessary to give any notice of any adjournment. The current Constitution is silent in this regard.

### ***Proxies and attorneys***

The current Constitution provides that the Board may require evidence that a proxy and/or power of attorney has been validly executed. The proposed Constitution simply provides that the proxy form/power of attorney must be properly executed. The current Constitution also provides for shareholders to make standing appointments, and provides details on the priority of receiving votes in the event there are conflicting appointments of attorneys, or if there are more than 2 current proxy appointments. The proposed Constitution is silent on this.

### ***Voting at general meetings***

The current Constitution provides that if a shareholder has appointed 2 proxies, neither of those proxies may vote on a show of hands. The proposed Constitution provides that on a show of hands, every person present who is a shareholder or a proxy has one vote. In the case of an equality of votes, the proposed Constitution provides that the Chair shall not have a casting vote, therefore in respect of a matter in which there is an equality of votes, the matter shall be decided in the negative. Under the current Constitution, the Chair has a casting vote, but in respect of a matter in which there is an equality of votes and he is not entitled to vote, the matter shall be decided in the negative.

### ***Company secretary***

The current Constitution sets out in detail provisions regarding the appointment of a company secretary, his terms and conditions of office, instances in which he will automatically cease to be a secretary, and how he may be removed from his position. The proposed Constitution provides that the secretary shall hold office on such terms and conditions as the Directors determine.

### ***Preference shares***

Under the current Constitution, the Company may issue preference shares, such preference shares to have the rights set out in the schedule to the current Constitution unless otherwise approved by a special resolution of the Company. Under the proposed Constitution, the Directors may, subject to the provisions of section 254A of the Corporation Act, issue preference shares on the terms they see fit, provided they have the same rights as holders of ordinary Shares to receive notices, reports and audited accounts, and to attend general meetings.

### ***Share certificates***

The proposed Constitution states that the Company need not issue a certificate in respect of a security where the non-issue is permitted by the Corporations Act. The current Constitution states that the Company must not issue such a certificate.

### ***Partly paid Shares***

With respect to notice of a call on a partly paid Share, the current Constitution provides that the notice must be given within the time limits, and in the form, required by the ASX Listing Rules. The proposed Constitution provides that 15 business days notice of a call must be given, and sets out the details which must be included in the notice.

In addition, under the current Constitution, the Directors may accept prepayment of some or all of the amount unpaid on a Share above the sums actually called as payment in advance of any further calls, agree to payment by the Company of interest on that part of the prepayment which exceeds the aggregate amount called at that time, and repay the sum or part of it. Under the proposed Constitution, the Directors may accept prepayments of uncalled amounts on a Share, and in such a case shall nominate whether the amount so paid is to be treated as capital or a loan to the Company by the shareholder.

If the amount is nominated as capital, it shall be deemed to have been applied in paying up (so far as it will extend) the unpaid balance of the total issue price of the Share, but the dividend entitlement attaching to such Share shall remain as it was prior to the payment so made until there is a call in respect of the Share of an amount equal to or greater than the amount so paid. If the amount is nominated to be a loan, it shall carry interest at a rate to be agreed between the Directors and the shareholder, shall not be repayable unless the Directors so determine, shall not confer on the shareholder any rights attributable to subscribed capital, and shall, unless so repaid, be applied in payment of calls on the Share as and when the same become due.

The current Constitution provides that on the hearing of an action for recovery of a called amount, if it is proved that the minute books of the Company record the Directors resolution to make the call, notice of the call is given in accordance with the Constitution, and the person sued appears in the shareholder register as the holder of the Share in respect of which the call was made, than proof of these matters is conclusive proof of the debt. The proposed Constitution is silent on this, but provides that the non-receipt of a notice of any call by, or the accidental omission to give notice of a call to, a shareholder does not invalidate the call.

### ***Forfeiture of Shares***

Under the current Constitution, where a shareholder has failed to pay a called amount, the Directors may send a forfeiture notice to the shareholder requiring payment by the date at least 14 days after the date of the notice. Under the proposed Constitution, where a shareholder has failed to pay a called amount, the Directors may send a forfeiture notice to the shareholder requiring payment by the date ten Business Days from the date of the notice ("**Payment Date**"). If payment is not made by the Payment Date, the relevant Shares will automatically forfeit 10 Business Days from the Payment Date.

In respect of a person whose Share has been forfeited, the person remains liable to pay all amounts owing on the Share, but the Directors may elect not to enforce payment. The proposed Constitution does not expressly confer a right on the Directors not to enforce payment.

Under the current Constitution, where a forfeited Share has been sold or disposed of, the Directors must apply the net proceeds of the sale or disposal to satisfy the amount unpaid on the Share, and subject to the terms of issue of the Share, must then apply any surplus to the person who held the Share immediately before forfeiture. The proposed Constitution does not state how the funds must be used, and provides that the Company may receive the consideration given for a forfeited Share on any sale or disposition of the Share and may effect a transfer of the Share in favour of the person to whom the Share is sold or disposed of and may do all such things as may be necessary or appropriate for it to do or effect such transfer. Upon the execution of the transfer, the transferee must be registered as the holder of the Share and is not bound to see to the application of any money paid as consideration.

The current Constitution provides that if the Company grants a mortgage or charge over uncalled capital, the Directors may delegate their power to make calls to the person in whose favour the mortgage or charge is granted or a trustee or agent for that person. The proposed Constitution is silent on this.

### ***Liens***

Both the current and proposed Constitution provide that the Company has a first and paramount lien on every Share for all due and unpaid calls and instalments due and unpaid in respect of that Share, and for all amounts the Company may be called upon by law to pay in respect of any Shares. The proposed Constitution additionally provides that the Company has a first and paramount lien on all the Shares of a shareholder who obtains Shares pursuant to an employee incentive scheme loan and to the extent such a loan remains.

Under the current Constitution, where the Company has a lien on a Share, the Company must not sell the Share unless it has given notice to the holder of the Share specifying a date, at least 10 business days after the date of the notice, requiring payment of the amount which is due and payable and secured by the lien, and the shareholder fails to pay within the required time. Under the proposed Constitution, the amount of notice which must be given is not less than 14 days before the date of sale. The proposed Constitution expressly provides that the Company's lien on a Share is extinguished if a transfer of the Share is registered without the Company giving notice of the claim to the transferee, and also provides that the Directors may at any time exempt a Share wholly or in part from the provisions in the Constitution regarding liens. The current Constitution is silent on these matters.

### ***Dividends***

With respect to partly paid Shares and determining entitlements to dividends, the current Constitution provides that if an amount was paid on a Share during the period to which a dividend relates, the Board may resolve that only part of the amount is taken into account as being paid on the Share, and an amount credited on a partly paid Share without payment is not taken into account as part of the amount being paid on a Share. The proposed Constitution is silent in this regard.

### ***Share plans***

Under the proposed Constitution, the Directors may, subject to the Corporations Act, establish in their absolute discretion a dividend reinvestment plan, interest reinvestment plan and/or a dividend election plan. Under the current Constitution, the Directors must first obtain the approval of shareholders in general meeting before implementing such plans.

### ***Transfer of Shares***

With respect to the registration procedure for a transfer of Shares, the proposed Constitution provides that the instrument of transfer must be executed by or on behalf of both the transferor and the transferee (unless it is a sufficient transfer of marketable securities within the meaning of the Corporations Act), and on registration of transfer, the Company must cancel the old certificate (if any). It further provides that the Company must retain every instrument of transfer which is registered for such period as the Directors determine, and where transfer is refused, the Directors must return to the person who deposited it if demand is made within 12 months of the giving of notice of refusal to register unless there has been an allegation of fraud concerning the transfer. The current Constitution is silent on these matters. Under the current Constitution, if a transfer is refused, the Company must give the lodging party notice of the refusal and reasons for it within 5 days. The proposed Constitution does not impose a time limit in these circumstances. The current Constitution provides that the Company may assume that a power of attorney that is lodged by a shareholder remains in force until the Company receives express notice in writing of the revocation of the power of attorney, or the death, dissolution or insolvency of the shareholder. The proposed Constitution is silent on this.

### ***Transmission of Shares***

The current Constitution provides that a person may become entitled to Shares because of the mental incapacity of a shareholder. The proposed Constitution is silent on this.

### ***Capitalisation of profits***

Under the proposed Constitution, the Directors may from time to time capitalise profits, and the capitalisation need not be accompanied by the issue of Shares. Under the current Constitution, the Company may capitalise profits, reserves or other amounts available for distribution to shareholders, and shareholders are entitled to participate in a capital distribution in the same proportions in which they are entitled to participate in dividends.

For the purposes of settling any difficulty that arises in regard to a capitalisation of profits, the current Constitution provides that the Directors may do anything they think appropriate and necessary to adjust the rights of shareholders among themselves including fixing the value of specific assets, making cash payments to shareholders on the basis of the value fixed for assets or in place of fractional entitlements, disregarding fractional entitlements, and vesting cash or specific assets in trustees. In this regard, the proposed Constitution provides that the Directors shall do all things necessary and, in particular, to the extent necessary to adjust the rights of the shareholders among themselves may make cash payments in place of fractional entitlements to Shares, and authorise any person to make, on behalf of shareholders entitled, an agreement with the Company providing for the issue to them of Shares or the payment up by the Company on their behalf of the amounts (or part of the amounts) remaining unpaid on their existing Shares by the application of their respective proportions of the sum resolved to be capitalised, and any such agreement shall be binding on all shareholders concerned.

### ***Conversion of Shares***

The current Constitution provides that the Company may convert a Share into a preference share, or a preference share into a Share, by resolution passed at a meeting of shareholders. Under the proposed Constitution, the variation of class rights requires the consent in writing of three quarters of the issued Shares of that class, or by a special resolution passed at a separate meeting of the holders of Shares in that class. In making such conversions, the current Constitution permits Directors to do anything necessary to effect the resolution, including making a cash payment or disregarding fractional entitlements, vest fractional entitlements, or round up fractional entitlements. The proposed Constitution is silent on this.

### ***Reductions of capital***

The current Constitution provides that the Company may reduce its share capital in accordance with law. In addition to this right, the proposed Constitution provides the Company may also reduce its share capital in any way that is not otherwise authorised by law if the reduction is fair and reasonable to the Company's shareholders as a whole, does not prejudice the Company's ability to pay its creditors, and is approved by shareholders in accordance with section 256C of the Corporations Act.

### ***Currency for payments***

The current Constitution specifically provides that the Company may pay amounts in the currency of a country other than Australia. The proposed Constitution is silent on this.

### ***Winding up***

In a winding up of the Company, the current Constitution provides that in determining shareholder entitlements, a partly paid Share is counted as a fraction of a fully paid Share equal to the proportion which the amount paid on it bears to the total issue price of the Share. Under the proposed Constitution, shareholders are entitled based on their number of Shares held by them, irrespective of the amount paid up or credited as paid up on the Shares.

### ***Notice***

Both the current and proposed Constitution permit the Company to give notice to shareholders by serving the notice personally, by electronic means, facsimile, or post. The proposed Constitution additionally permits the Company to give notice in accordance with section 249J(3A) of the Corporations Act. Under the current Constitution, overseas shareholders may notify the Company in writing of an address in Australia to which notices may be sent. Under the proposed Constitution, notices to overseas shareholders are to be sent by airmail, facsimile or electronic means, or any other way that ensures it will be received quickly.

Under the current Constitution, notice is taken to have been given and received, if delivered personally or by fax or electronic message:

1. by 5.00 pm (local time in the place of receipt) on a business day, on that day; or
2. after 5.00 pm (local time in the place of receipt) on a business day, or on a day that is not a business day, on the next business day.

If sent by mail, it is taken to be given and received 1 business day after posting. Under the proposed Constitution, where notice is served personally it is taken to have been served when delivered. Where a notice is sent by post, service of the notice shall be deemed to be effected by properly addressing, prepaying and posting a letter containing the notice, and to have effected, on the day after the date of its posting. Where a notice is sent by facsimile transmission or electronic notification, service of the notice is deemed to be effected by properly addressing and transmitting the facsimile transmission or electronic notification and to have been served on the day of its transmission except if transmitted on a day which is not a business day or is after 5.00 pm (local time in the place of receipt) on a day which is a business day, in which case it is taken to be served on the next business day.

The current Constitution provides that if a specified period must pass after a notice is given before an action may be taken, neither the day on which the notice is given nor the day on which the action is to be taken may be counted in reckoning the period. The proposed Constitution is silent on this.

The proposed Constitution provides that notice may be given to a person entitled to a Share in consequence of the death or bankruptcy of a shareholder. The current Constitution is silent on this.



Under the current Constitution, if on 2 or more consecutive occasions notice is served on a shareholder and is returned unclaimed or with an indication that the shareholder is not known at the address to which it was sent, or the Directors believe on other reasonable grounds that the shareholder is not at the address shown in the register or notified to the Company, the Company may give effective notice to that shareholder by exhibiting the notice at the Company's registered office for at least 48 hours. Under the proposed Constitution, where the Company has a bona fide reason to believe that a shareholder is not at their registered address and the Company has subsequently made an enquiry as to the whereabouts of the shareholder which elicits no response or a response indicating that the shareholder or their present whereabouts are unknown, all future notices will be deemed to be given to such shareholder if the notice is exhibited in the Company's registered office for a period of 48 hours.

#### ***Directors' Recommendation***

The Board recommends shareholders vote in favour of Resolution 1.

### **RESOLUTION 2 – ADOPTION OF EMPLOYEE SHARE OPTION PLAN**

The Company is proposing to establish, conditional on Admission, a new employee share option plan called the “Coal of Africa Limited Employee Share Option Plan” (the “**Plan**”). A summary of the principal features of the Plan is set out in Appendix 1 to this Explanatory Statement. Should Resolution 2 be passed, the new Plan will only take effect from Admission.

The Company may extend the Plan to employees of the Company or any of its subsidiaries who are resident or working overseas by establishing any supplements or appendices to the Plan it considers appropriate to take advantage of or comply with local laws and regulations. Overall limits on the availability of Shares in the Plan will apply to any supplements or appendices.

ASX Listing Rule 7.1 broadly provides, subject to certain exceptions, that shareholder approval is required for any issue of securities by a company listed on ASX, where the securities proposed to be issued represent more than 15% of the company's securities then on issue. Shareholder approval is required if any issue of Options to employees pursuant to the Plan is to fall within the exception to the calculation of the 15% limit imposed by ASX Listing Rule 7.1 on the number of securities which may be issued without shareholder approval. Accordingly, shareholder approval is sought for the purposes of ASX Listing Rule 7.2 Exception 9(b) which provides that ASX Listing Rule 7.1 does not apply to an issue of securities under an employee incentive scheme that has been approved by the holders of ordinary securities within three years of the date of issue.

In accordance with ASX Listing Rule 7.2 Exception 9(b) the following information is provided:

1. a summary of the terms of the Plan is set out in Appendix 1 to this Explanatory Statement;
2. no securities have been issued under the Plan; and
3. a voting exclusion statement has been included for the purposes of Resolution 2.

#### ***Directors' Recommendation***

The Board recommends shareholders vote in favour of Resolution 2.

### **RESOLUTION 3 – INCREASE IN DIRECTORS' FEES**

Resolution 3 seeks shareholder approval for the purposes of Listing Rule 10.17 and for all other purposes, for the Company to be authorised to increase the aggregate amount of fees paid to Directors by \$700,000 from \$300,000 per annum to an aggregate amount of \$1,000,000 per annum.

The Board considers that it is reasonable and appropriate at this time to seek an increase in the remuneration pool for Non-Executive Directors for the following reasons:

1. The maximum aggregate fees payable to Directors have not been increased since 5 June 2007. The number of non-executive Directors has increased from 6 to 8 in that period.
2. The Company's Broad Based Black Economic Empowerment partner, Firefly Investments 163 Proprietary Limited has the right to nominate 2 persons to the CoAL Board.

It is not intended to fully utilise the increased aggregate fees in the immediate future.

The remuneration of each Director for the year ended 30 June 2009 is detailed in the Company's 2009 Annual Report.

### ***Directors' Recommendation***

The Board recommends shareholders vote in favour of Resolution 3.

### **RESOLUTION 4 - ISSUE OF OPTIONS TO DAVID MURRAY**

Mr David Murray was recently appointed to the Board as Senior Independent Non-Executive Director. Mr Murray holds a Bachelor of Science Degree (Civil Engineering) from the University of Kwazulu-Natal University and a Post Graduate Diploma in Mining Engineering from the University of Pretoria. He has also completed the Advanced Executive Program from the University of South Africa.

From 1978 until 1999, Mr Murray worked for the Ingwe Coal Corporation (formerly Trans-Natal Coal Corporation Limited). He progressed through various operational, project and managerial positions and in 1993, was appointed Managing Director of Trans-Natal. In 1999, Mr Murray was appointed Chief Executive Officer of BHP Billiton Coal. In 2001, he moved to Australia after being appointed CEO of BHP Billiton Mitsubishi Alliance, a position held till 2004.

In early 2005, Mr Murray moved to Melbourne to the global headquarters of BHP Billiton Limited when he accepted the position as President of Metallurgical Coal. With the decision made in early 2007 to merge the Energy Coal and Met Coal business, Mr Murray became the President of the Coal Customer Sector Group. After the decision in 2008 by BHP Billiton to separate the two coal businesses, Mr Murray accepted the role as President of the Energy Coal Sector Group, a position he held until he left BHP Billiton in December 2009.

The Company proposes to issue a total of 2,500,000 Options (each Option having an exercise price equal to the volume weighted average price of the Company's Shares 10 trading days prior to the issue date and an expiry date 5 years from the issue date, 1,000,000 of which will vest 12 months after the date of issue, 750,000 of which will vest 24 months after the date of issue and the remaining 750,000 vesting 36 months from the date of issue) to Mr David Murray or his nominee(s).

The terms of the Options are set out in Appendix 2 to this Explanatory Memorandum. The Options will not be issued under the Company's employee share option plan. The Company will not seek official quotation of the Options on ASX.

This offer of Options was made by the Board to attract the services of Mr Murray. The issue of Options encourages Mr Murray to have a greater involvement in the achievement of the Company's objectives and to provide an incentive to strive to that end by participating in the future growth and prosperity of the Company through share ownership. Under the Company's current circumstances the Directors consider (in the absence of Mr Murray) that the incentives intended for Mr Murray represented by the issue of these Options is a cost effective and efficient means for the Company to provide a reward and an incentive, as opposed to alternative forms of incentive, such as the payment

of additional cash compensation that would be necessary for someone with the experience of Mr Murray.

The number of Options to be issued to Mr Murray has been determined based upon a consideration of:

- the remuneration of Mr Murray; and
- the Directors wish to ensure that the remuneration offered is competitive with market standards.

The Directors have considered the proposed number of Options to be issued will ensure that Mr Murray's overall remunerations is in line with market standards.

The exercise price of the Options has not yet been set, such exercise price will be the amount equal to the volume weighted average price of the Shares on ASX for the 10 trading days prior to the date of issue of the Options.

The following amounts will need to be paid to the Company by Mr Murray or his nominee if the Options are exercised, using assumed exercise prices of \$1.35, \$1.50, \$1.75 \$2.00, and \$2.50:

<b>Exercise Price</b>	<b>Amount to be paid</b>
\$1.35	\$3,375,000
\$1.50	\$3,750,000
\$1.75	\$4,375,000
\$2.00	\$5,000,000
\$2.50	\$6,250,000

### **Related Party Transactions Generally**

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to a *related party* of the public company *unless* either:

1. the giving of the financial benefits falls within one of the nominated exceptions to the provision; or
2. shareholder approval is obtained prior to the giving of the financial benefit and the benefit is given within 15 months after obtaining such approval.

For the purposes of Chapter 2E of the Corporations Act, Mr Murray is considered to be a related party of the Company.

Resolution 4 provides for the issue of Options to Mr Murray which is a financial benefit which requires shareholder approval.

### **Current Holdings**

Set out below are details of Mr Murray's relevant interest in Shares of the Company as at the date of this Notice:

<b>Director</b>	<b>Associate</b>	<b>Number of Shares</b>	<b>Number of Options</b>
Mr David Murray	NIL	NIL	NIL

## INFORMATION REQUIREMENTS

For the purposes of Chapter 2E of the Corporations Act the following information is provided.

### *The related parties to whom the proposed resolutions would permit the financial benefit to be given:*

Subject to shareholder approval, 2,500,000 Options will be issued to Mr Murray or his nominees.

### *The nature of the financial benefit*

The proposed financial benefit to be given is the issue of Options for no consideration to Mr Murray as noted above.

### *Directors' recommendation*

All the Directors were available to make a recommendation. For the reasons noted above:

All of the Directors (other than Mr Murray) (who have no interest in the outcome of Resolution 4) recommend that shareholders vote in favour of Resolution 4. Mr Murray declines to make a recommendation about Resolution 4 as he has a material personal interest in the outcome of that particular Resolution as it relates to the proposed issue of Options to him or his nominee(s).

In making the recommendation, all of the Directors (other than Mr Murray) (who have no interest in the outcome of Resolution 4) have taken into account the guidelines for non executive director remuneration as set out in Box 8.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (2<sup>nd</sup> edition) ("**Principles**"). Paragraph 2 of those guidelines provides that non executive directors should not receive options. The Directors (other than Mr Murray) (who have no interest in the outcome of Resolution 4) consider the issue of Options to Mr Murray is appropriate and consider that the issue of Options to Mr Murray is a necessary inducement to attract someone of his experience.

### *Other information that is reasonably required by members to make a decision and that is known to the Company or any of its Directors.*

The proposed ordinary Resolution 4 would have the effect of giving power to the Directors to issue a total of 2,500,000 Options on the terms and conditions as set out in Appendix 2 to this Explanatory Statement and as otherwise mentioned above.

The Company currently has 530,514,663 listed Shares and the following unlisted Options on issue:

Number	Exercise Price	Expiry Date
9,074,998	\$0.50	30 September 2011
250,000	\$2.05	1 May 2012
7,000,000	\$1.25	30 September 2012
1,000,000	\$1.90	30 September 2012
600,000	\$1.25	1 May 2012
5,000,000	\$2.74	30 November 2014
912,500	\$1.90	30 June 2014

If all Options issued as proposed above are exercised, and assuming all existing Options on issue have been exercised, the effect would be to dilute the share holding of existing shareholders by 0.45%. The market price of the Company's Shares during the period of the Options will normally determine whether or not Mr Murray exercises the Options. At the time any Options are exercised and Shares

are issued pursuant to the exercise of the Options, the Company's Shares may be trading at a price which is higher than the exercise price of the Options.

Mr Murray's fees per annum (including superannuation) and the total financial benefit to be received by him in this current period are set out below along with the financial benefit that Mr Murray will receive as a result of the issue of the Options the subject of Resolution 4 (using assumed share prices and exercise prices of \$1.35, \$1.50, \$1.75, \$2.00 and \$2.50):

<b>Assumed Exercise Price</b>	<b>Fees p.a. for the current period (\$)</b>	<b>Total Value of Options (\$)</b>	<b>Total Financial Benefit (\$)</b>
\$1.35	£65,000 (A\$ 112,904)*	0.8714	A\$2,178,500
\$1.50	£65,000 (A\$ 112,904)*	0.9683	A\$2,420,750
\$1.75	£65,000 (A\$ 112,904)*	1.129	A\$2,822,500
\$2.00	£65,000 (A\$112,904)*	1.291	A\$3,227,500
\$2.50	£65,000 (A\$112,904)*	1.613	A\$4,032,500

*\*based on currency conversion at 23 August 2010: £0.57 = A\$1.00*

This proposed total remuneration package for the financial year of 2010/2011 is considered by the Directors as being appropriate remuneration for Mr Murray in light of his skill, experience, reputation and future duties in his role as Non Executive Director of the Company.

### **Valuation of Options**

The Company's advisers have valued the Options to be issued to Mr Murray using the Binomial Model. The value of an option calculated by the Binomial Model is a function of a number of variables. The valuation of the Options has been prepared using the following assumptions (using assumed share and exercise prices of \$1.35, \$1.50, \$1.75, \$2.00 and \$2.50):

<b>Variable</b>	<b>Input</b>	<b>Input</b>	<b>Input</b>	<b>Input</b>	<b>Input</b>
Exercise price	\$1.35	\$1.50	\$1.75	\$2.00	\$2.50
Share price	\$1.35	\$1.50	\$1.75	\$2.00	\$2.50
Risk Free Interest Rate	4.8%	4.8%	4.8%	4.8%	4.8%
Volatility	75%	75%	75%	75%	75%
Time (years to expiry)	5	5	5	5	5

The Company's advisers have calculated the value of each option based on the following additional assumptions:

1. The date of valuation has been set at 23 August 2010 however the formal valuation for IFRS purposes will need to be undertaken as at the day shareholders approve the grant of the 2,500,000 Options;
2. The closing market price of the Company's shares on 23 August 2010 was \$1.33, however valuations have been made assuming share and exercise prices at \$1.35, \$1.50, \$1.75, \$2.00 and \$2.50;
3. No discount has been applied.

Based on the assumptions, it is considered that the estimated average value of the Options to be issued to Mr Murray is as follows.

Share and Exercise Price	\$1.35	\$1.50	\$1.75	\$2.00	\$2.50
Value per Option	\$0.8714	\$0.9683	\$1.129	\$1.291	\$1.613

Any change in the variables applied in the calculations above between the date of the valuation and the date the Options are issued would have an impact on their value.

The following table gives details of the highest, lowest and latest price of the Company's Shares trading on ASX over the past 12 months ending on 24 August 2010:

Highest Closing Price	Dates of Highest Closing Price	Lowest Closing Price	Dates of Lowest Closing Price	Latest price
\$2.57	16 April 2010	\$1.28	12 August 2010	\$ 1.34

### ***Other Information***

Under the Australian Equivalent of IFRS, the Company is required to expense the value of the Options in its statement of financial performance for the current financial year. Other than as disclosed in this Explanatory Memorandum, the Directors do not consider that from an economic and commercial point of view, there are any costs or detriments including opportunity costs or taxation consequences for the Company or benefits foregone by the Company in issuing the Options pursuant to Resolution 4.

Neither the Directors nor the Company are aware of other information that would be reasonably required by shareholders to make a decision in relation to the financial benefits contemplated by the proposed resolution.

### **Listing Rule 10.11:**

Listing Rule 10.11 requires shareholder approval by ordinary resolution to any issue by a listed company of securities to a related party. Accordingly, Listing Rule 10.11 requires shareholders to approve the issue of Options to Mr Murray.

For the purposes of Listing Rule 10.13, the following information is provided to shareholders with respect to Resolution 1:

- (a) the Options will be issued to Mr David Murray or to his nominee(s);
- (b) the maximum number of Options to be issued is 2,500,000;
- (c) the Options will be allotted and issued on a date which will be no later than 1 month after the date of this General Meeting, unless otherwise extended by way of ASX granting a waiver to the Listing Rules;
- (d) the Options will be issued for no consideration;
- (e) no funds will be raised by the issue of the Options; and
- (f) the terms and conditions of the Options are set out in Appendix 2 to this Explanatory Memorandum.

If approval is given for the issue of the Options under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

## **RESOLUTION 5 – RATIFICATION OF ISSUE OF SHARES**

On 17 June 2010, the Company announced a placement of 50,000,000 Shares to institutional investors to raise £ 55 million (before expenses) (“Placement”). The 50,000,000 Shares placed represented approximately 10.4% of the Company's existing issued share capital.

J.P. Morgan Cazenove acted as Global Co-ordinator and Sole Bookrunner, Macquarie First South Advisers (Proprietary) Limited as joint lead manager and Evolution Securities Limited and Mirabaud Securities LLP as Co-Lead Managers to the Placement.

The Company has and will use the net proceeds of the Placement to fund the following:

- Makhado bulk sample - approximately US\$7.5 million;
- Makhado Definitive Feasibility Study - approximately US\$6.5 million;
- Potential acquisitions contiguous to CoAL existing assets or existing inorganic growth opportunities – approximately US\$15 million and US\$20 million respectively;
- Repay the existing JPMorgan Chase Bank, N.A. working capital facility - US\$20 million; and
- General working capital.

Resolution 5 seeks that shareholders ratify the issue of 50,000,000 Shares pursuant to ASX Listing Rule 7.4. Listing Rule 7.4 enables the shareholders of a company to ratify an issue of securities provided that the issue does not fall within one of the exceptions of Listing Rule 7.1 and does not breach the 15% restriction contained in Listing Rule 7.1.

For the purpose of ASX Listing Rule 7.5, the following information is provided:

1. 50,000,000 Shares were issued;
2. the Shares were issued at an issue price of £1.10 per Share;
3. the allottees of the Shares were sophisticated and institutional investors who are clients of J.P. Morgan Cazenove, Macquarie First South Advisers (Proprietary) Limited, Evolution Securities Limited and Mirabaud Securities LLP. None of the allottees are related parties of the Company;
4. the Shares are ordinary fully paid shares in the capital of the Company and rank equally in all respects with the existing ordinary fully paid shares issued in the capital of the Company; and
5. the Company intends to use the net proceeds of the Placement to fund the Makhado bulk sample, Makhado Definitive Feasibility Study and potential acquisitions contiguous to CoAL existing assets or existing inorganic growth opportunities, to repay the existing JPMorgan Chase Bank, N.A. working capital facility and for general working capital .

### ***Directors' Recommendation***

The Board recommends shareholders vote in favour of Resolution 5.

## GLOSSARY

### ***FOR THE PURPOSES OF RESOLUTIONS 1-5 AND THE EXPLANATORY STATEMENT, THE FOLLOWING DEFINITIONS APPLY:***

“**ASX**” means ASX Limited, ABN 98 008 624 691, and, where the context permits, the Australian Securities Exchange operated by ASX Limited;

“**ASX Listing Rules**” means the Listing Rules of ASX;

“**Board**” means the Board of Directors of the Company;

“**Company**” or “**CoAL**” means Coal of Africa Limited, ABN 98 008 905 388, a limited liability company duly incorporated in Australia;

“**Constitution**” means the constitution of the Company;

“**Corporations Act**” means the Corporations Act 2001 (Cth);

“**Directors**” means the directors of the Company;

“**Notice**” or “**Notice of Meeting**” means the notice of meeting which accompanies this Explanatory Statement;

“**Option**” means an option to acquire a Share;

“**Resolution**” means a resolution proposed pursuant to the Notice;

“**Shares**” means the ordinary shares in the Company; and

“**WST**” means Australian Western Standard Time.



## APPENDIX 1

### Summary of key features of the “Coal of Africa Limited Employee Share Option Plan”

The Company has established, conditional on Admission, the Coal of Africa Employee Share Option Plan (the “Plan”). A summary of the principal features of the Plan is set out below.

#### 1.1 Administration

The Plan will be administered by the Board or by a duly constituted committee of the Board in accordance with its rules.

#### 1.2 Eligible employees

The Board may select any employee or director of the Company or any associated company to participate in the Plan. There are no individual limits on participation in the Plan. The Board will take account of local market practice in the relevant jurisdictions to ensure that awards are not excessive. The Board will also consider the person's seniority, position, length of service, record of employment, potential contribution to the growth of the Company, extent of existing participation in the Plan and any other matters the Board considers relevant.

#### 1.3 Grant of options

Options may be granted within the period of three months following the adoption of the Plan on Admission and thereafter within 42 days following the preliminary announcement of the annual or half yearly or, if relevant, quarterly, results of the Company for any financial period; following the expiry of any restrictions imposed on the Company, the announcement or coming into force of any amendments to legislation affecting share option plans or at any other time if the Board in its absolute discretion determines that the circumstances are sufficiently exceptional to justify the grant of an option.

Options are granted over Shares. Options granted under the Plan are personal to the option holder and may not be transferred except as set out below. Benefits under the Plan will not be pensionable. No consideration is payable for the grant of an option.

An eligible employee who is offered an option may nominate a nominee in whose favour the eligible person wishes to renounce the offer of an option. The Board may, in its absolute discretion accept or reject the nomination. This provision is unusual and would not normally be included in the rules of an employee share option plan being adopted by a UK listed entity. However, the purpose of this provision is to ensure that participants in the Plan who will be based in Australia and South Africa only for the foreseeable future, are able to benefit from tax planning arrangements available in these jurisdictions. The availability of these tax planning arrangements and the impact or benefits available from them may vary according to each individual employee's circumstances.

#### 1.4 Exercise price

The exercise price at which options may be exercised is determined by the Board and will be not less than:

- (a) at any time when the Shares are listed, the weighted average closing sale price of a Share as derived from the Official List over the five dealing days immediately preceding the date of grant of an option; or

- (b) where there has been no trading in the Shares during the five days immediately preceding the date of the grant of an option, the last sale price recorded.

## 1.5 **Limits**

The Plan is subject to the following limits:

- (a) no option may be granted if, as a result, the aggregate number of Shares issued and issuable pursuant to options granted under the Plan, or under any other employees' share plan adopted by the Company in general meeting would in any period of ten years exceed 10 per cent of the issued ordinary share capital of the Company from time to time; and
- (b) no option may be granted if, as a result, the aggregate number of Shares issued and issuable pursuant to options granted under the Plan or any other company share option plan adopted by the Company in general meeting would in any period of ten years exceed 5 per cent of the issued share capital of the Company from time to time. The Plan permits options to be granted over newly issued Shares.

Options granted before Admission and within the period of three months from Admission will not count towards these limits.

## 1.6 **Exercise of options**

An option will normally be exercisable for a period of time determined by the Board in its discretion which may run from on the date of grant and may end any time up to the fifth anniversary of the date of grant. The exercise of an option will be subject to the satisfaction of any performance targets which may have been imposed by the Board. If the optionholder dies, or if the option holder's employment terminates by reason of total and permanent disablement, redundancy or retirement his option will be exercisable for three months. The Board has the discretion to reduce, waive or vary the performance condition. If an optionholder ceases to be employed for any other reason his options will lapse unless the Board determines otherwise.

## 1.7 **Performance measures**

Participants in the Plan for the foreseeable future will be based in Australia and South Africa only. It is not market practice in either of these jurisdictions to make the exercise of options and the vesting of awards conditional on satisfaction of performance conditions. Instead the vesting of awards is in tranches subject to continued employment. Although the Plan rules permit the application of performance conditions to options, the Company does not intend to apply performance conditions to options granted under the Plan. However, the Board will keep the position under review and if in the future performance conditions are imposed, the Board will carefully consider the most appropriate performance measures based on current market practice, the guidelines of the Investment Board of the Association of British Insurers and the environment within which the Company operates.

## 1.8 **Shares**

Shares issued on the exercise of an option will rank *pari passu* with existing Shares except for any rights attached to such Shares by reference to a record date prior to the date of allotment. The Company will use its reasonable endeavours to obtain admission to the Official List for any Shares so allotted.

## **1.9 Variation of share capital**

On any variation of the share capital of the Company by way of capitalisation or rights issue or by consolidation, sub-division or reduction of capital or otherwise, the Board may make such adjustments as it considers appropriate to the exercise price and/or the number comprised in an option, provided that there is no increase in the aggregate exercise price. No such adjustment may be made without the prior written confirmation from the Company's auditors that it is in their opinion fair and reasonable.

## **1.10 Amendments to the Plan**

The Board may amend the Plan at any time in any respect but the rules of the Plan relating to eligibility, limits on the number of Shares available under the Plan, the basis for determining an eligible employee's participation and for the adjustment thereof in the event of a variation of capital and to amendment of the Plan may not, however, be amended to the advantage of existing or future optionholders without the prior approval of the Company in general meeting except that the Board may:

- (a) make any amendments necessary to take account of a change in legislation and to obtain or maintain favourable taxation, exchange control or regulatory treatment of the Company, any of its subsidiaries or any optionholder and
- (b) make minor amendments to benefit the administration of the Plan.

No amendment may be made to alter to the material disadvantage of any option holder any rights already acquired by him without the consent of option holders holding options over at least 75 per cent of the Shares under option under the Plan.

## APPENDIX 2

### TERMS AND CONDITIONS OF CLASS C OPTIONS

1. Each Option shall entitle the holder the right to subscribe (in cash) for one (1) fully paid ordinary share in the capital of the Company ("**Shares**").
2. The Options will expire at 5.00pm WST on the date that is 5 years from the date of issue. Subject to Clause 3 and 7 hereof, options may be exercised at any time prior to the expiry date and options not so exercised shall automatically expire on the expiry date.
3. Subject to Clause 4, as to the Options:
  - (a) 1,000,000 Options will vest 12 months after the date of issue;
  - (b) 750,000 Options will vest 24 months after the date of issue; and
  - (c) 750,000 Options will vest 36 months after the date of issue.
4. In the event Mr Murray resigns or is removed as a director of the Company all unvested Options shall automatically lapse save for that number of Options that were due to vest in the year of resignation or removal will immediately vest pro-rated to the time already served in that year (for example, if Mr Murray resigns 9 months after the date of issue, the number of Options that will vest will be calculated as follows: 1,000,000 Options x  $(9 \div 12)$ ).
5. Each ordinary Share allotted as a result of the exercise of any option will, subject to the Constitution of the Company, rank in all respects pari passu with the existing ordinary fully paid shares in the capital of the Company on issue at the date of allotment.
6. A registered owner of an option ("Option Holder") will not be entitled to attend or vote at any meeting of the members of the Company unless they are, in addition to being an Option Holder, a member of the Company.
7. Options are not transferable at any time prior to the expiry date.
8. Method of Exercise of Options
  - (a) The Company will provide to each Option Holder a notice that is to be completed when exercising the options ("Notice of Exercise of Options"). Options may be exercised by the Option Holder completing the Notice of Exercise of Options and forwarding the same to the Secretary of the Company to be received prior to the expiry date. The Notice of Exercise of Options must state the number of options exercised and the consequent number of ordinary shares in the capital of the Company to be allotted; which number of options must be a multiple of 2,500 if only part of the Option Holder's total options are exercised, or if the total number of options held by an Option Holder is less than 2,500, then the total of all options held by that Option Holder must be exercised.
  - (b) The Notice of Exercise of Options by an Option Holder must be accompanied by payment in full for the relevant number of shares being subscribed, being an amount equal to the volume weighted average price of the Company's shares 10 trading days prior to the issue date.
  - (c) Subject to Clause 8(a) hereof, the exercise of less than all of an Option Holder's options will not prevent the Option Holder from exercising the whole or any part of the balance of the Option Holder's entitlement under the Option Holder's remaining options.
9. Within 14 days from the date the Option Holder properly exercises options held by the Option Holder, the Company shall issue and allot to the Option Holder that number of fully paid ordinary Shares in the capital of the Company so subscribed for by the Option Holder.

10. If the Company is listed on the ASX, the Company will within three (3) business days from the date of issue and allotment of Shares pursuant to the exercise of an Option, apply to the ASX for, and use its best endeavours to obtain, Official Quotation of all such shares, in accordance with the Corporations Law and the Listing Rules of the ASX.
11. The Options will not be quoted.
12. In the event of a reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company, all rights of the option holder will be changed to the extent necessary to comply with the Listing Rules applying to the reconstruction of capital, at the time of the reconstruction.
13. There are no participating rights or entitlements inherent in the options to participate in any new issues of capital which may be made or offered by the Company to its shareholders from time to time prior to the expiry date unless and until the options are exercised. The Company will ensure that during the exercise period, the record date for the purposes of determining entitlements to any new such issue, will be at least 9 business days after such new issues are announced (or such other date if required under the Listing Rules of the ASX) in order to afford the Option Holder an opportunity to exercise the options held by the Option Holder.
14. There are no rights to change the exercise price or the number of underlying ordinary shares if there is a pro-rata issue or bonus issue to the holders of ordinary shares.
15. Notwithstanding Clause 3, all options may be exercised by the Option Holder:
  - (a) in the event a takeover bid (as defined in the Corporations Act) to acquire any Shares becomes or is declared to be unconditional, irrespective of whether the takeover bid extends to Shares issued and allotted after the date of the takeover bid or not; or
  - (b) at any time after a Change of Control Event (meaning a shareholder, or group of associated shareholders, being entitled to sufficient shares in the Company to give it or them the ability, and that ability is successfully exercised, in a general meeting, to replace all or a majority of the board of the Company has occurred); or
  - (c) if a merger by way of scheme of arrangement under the Corporations Act has been approved by the Court under section 411(4)(b) of the Corporations Act 2001.



COAL of AFRICA LIMITED  
ABN 98 008 905 388

## Lodge your vote:



### By Mail:

Coal of Africa Limited  
Level 1  
173 Mounts Bay Road  
Perth, Western Australia 6000

Alternatively you can fax your form to  
(within Australia) (08) 9322 6778  
(outside Australia) +61 8 9322 6778

### For all enquiries call:

(within Australia) (08) 9322 6776  
(outside Australia) +61 8 9322 6776

## Proxy Form

For your vote to be effective it must be received by 3.00pm (WST) Tuesday 12 October 2010

### How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

#### Appointment of Proxy

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

**A proxy need not be a securityholder of the Company.**

### Signing Instructions

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

### Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at [www.investorcentre.com](http://www.investorcentre.com) under the information tab, "Downloadable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**Turn over to complete the form** ➔



View your securityholder information, 24 hours a day, 7 days a week:

**[www.investorcentre.com](http://www.investorcentre.com)**

- ☒ Review your securityholding
- ☒ Update your securityholding

**Your secure access information is:**

**SRN/HIN:**



**PLEASE NOTE:** For security reasons it is important that you keep your SRN/HIN confidential.

☐

**Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.

## Proxy Form

Please mark ☒ to indicate your directions

### STEP 1

#### Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Coal of Africa Limited hereby appoint

☐

the Chairman  
of the Meeting **OR**



**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of Coal of Africa Limited to be held at The Park Business Centre, 45 Ventnor Avenue, West Perth, Western Australia on Thursday, 14 October 2010 at 3.00pm (WST) and at any adjournment of that meeting.

**Important for Items 2 & 3:** If the Chairman of the Meeting is appointed as your proxy, or may be appointed by default and you do not wish to direct him/her how to vote on Items 2 & 3 below, please mark the box in this section. If you do not mark this box and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on Items 2 & 3 and your votes will not be counted in computing the required majority if a poll is called on these Items. The Chairman of the Meeting intends to vote undirected proxies in favour of Items 2 & 3 of business.

☐

I/We acknowledge that the Chairman of the Meeting may exercise my proxy even if he/she has an interest in the outcome of Items 2 & 3 and that votes cast by him/her, other than as proxy holder, would be disregarded because of that interest.

### STEP 2

#### Items of Business



**PLEASE NOTE:** If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

##### Special Resolution

Item 1 Adoption of Constitution

For

Against

Abstain

☐☐☐

##### Ordinary Resolutions

Item 2 Adoption of Employee Share Option Plan

☐☐☐

Item 3 Increase in Directors' Fees

☐☐☐

Item 4 Grant of Options to David Murray

☐☐☐

Item 5 Ratification of Issue of Shares

☐☐☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

### SIGN

#### Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact  
Name

\_\_\_\_\_

Contact  
Daytime  
Telephone

\_\_\_\_\_

Date \_\_\_\_/\_\_\_\_/\_\_\_\_