



COAL of AFRICA LIMITED

ABN 98 008 905 388

---

**NOTICE OF ANNUAL GENERAL MEETING**

**EXPLANATORY STATEMENT**

**PROXY FORM**

---

**Date of Meeting**

17 November 2010

**Time of Meeting**

3.00 pm (WST)

**Place of Meeting**

The Park Business Centre

45 Ventnor Avenue

West Perth WA 6005

**THE 2010 ANNUAL REPORT IS AVAILABLE ONLINE, SIMPLY VISIT:**

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

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

*If you are unable to attend the Annual 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**

The Annual 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  
3.00 pm (WST)  
on 17 November 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 Annual 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 ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual 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 17 November 2010 at 3.00 pm (WST), for the purpose of transacting the following business referred to in this Notice of Annual 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 are defined in the glossary at the end of the Explanatory Statement.

## **ORDINARY BUSINESS**

### **Financial Reports**

To receive and consider the Annual Financial Statements of the Company for the year ended 30 June 2010 including the Directors’ Report and the Auditor’s Report.

#### ***Resolution 1: Non binding Resolution to adopt Remuneration Report***

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

*"To adopt the Remuneration Report for the year ended 30 June 2010."*

#### ***Resolution 2: Election of Director – Mr David Murray***

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

*"That Mr David Murray, having been appointed as an additional director of the Company on 8 September 2010, who retires in accordance with the Constitution and, being eligible, offers himself for election, be elected as a Director of the Company."*

#### ***Resolution 3: Re-election of Director – Mr Simon Farrell***

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

*"That Mr Simon Farrell, being a director of the Company who retires by rotation in accordance with the Constitution and, being eligible, offers himself for re-election, be re-elected as a Director of the Company."*

#### ***Resolution 4: Re-election of Director – Mr Richard Linnell***

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

*"That Mr Richard Linnell, being a director of the Company who retires by rotation in accordance with the Constitution and, being eligible, offers himself for re-election, be re-elected as a Director of the Company."*

#### ***Resolution 5 – Change of Auditor***

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

*"That Deloitte Touche Tohmatsu of Level 14, 240 St. George's Terrace, Perth, having being nominated by a member of the Company and consented in writing to act, be appointed auditor of the Company with effect from this Annual General Meeting."*

#### ***Resolution 6 - Disapplication of pre-emption rights***

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

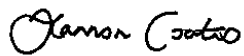
*"That, conditional upon Admission; the Directors be and are hereby empowered to allot equity securities for cash as if clause 3.1(a) of the New Constitution did not apply to any such allotment on the following terms:*

- a) This power is limited to the allotment of sale of equity securities:*
  - (i) in connection with an offer of securities in favour of the Company's shareholders where the equity securities respectively attributable to the interests of the Company's shareholders (other than the Company) are proportionate (as nearly as may be) to the respective numbers of Shares held by them and holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary or appropriate, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, legal or practical problems under the laws of, or the requirements of any relevant regulatory body or stock exchange in, any territory, or by virtue of the Shares being represented by depositary interests or any other matter; and*
  - (ii) other than under paragraph (i), up to a total of five per cent of the Company's total issued share capital as at the date of the meeting at which this resolution is passed;*
- b) this power expires (unless previously renewed, varied or revoked) upon the date of the next annual general meeting of the Company; and*
- c) before this power expires, the Directors may make offers or agreements which would or might require equity securities to be allotted after it expires and the Directors are entitled to allot or sell equity securities pursuant to any such offer or agreement as if this power had not expired."*

**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: 4 October 2010**

## PROXIES

1. Votes at the Annual 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 6000 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 Shares at the close of business on 15 November 2010 will be entitled to attend and vote at the Annual 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 Chairperson, the proxy must vote on a poll and must vote that way; and
  - (d) if the proxy is not the Chairperson, 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 Annual 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 this Explanatory Statement are defined in the glossary at the end of this Explanatory Statement.

### **FINANCIAL STATEMENTS**

The first item of the Notice of Annual General Meeting deals with the presentation of the consolidated Annual Financial Report of the Company for the financial year ended 30 June 2010 together with the Directors' Declaration and Report in relation to that financial year and the Auditor's Report on those financial statements. Shareholders should consider these documents and raise any matters of interest with the Directors when this item is being considered.

No resolution is required to be moved in respect of this item.

Shareholders will be given a reasonable opportunity at the Annual General Meeting to ask questions and make comments on the accounts and on the business, operations and management of the Company.

The Chairman will also provide shareholders a reasonable opportunity to ask the Auditor questions relevant to:

- the conduct of the audit;
- the preparation and content of the independent Auditor's Report;
- the accounting policies adopted by the Company in relation to the preparation of accounts; and
- the independence of the Auditor in relation to the conduct of the audit.

### **RESOLUTION 1 – REMUNERATION REPORT**

The Directors' Report for the year ended 30 June 2010 contains a Remuneration Report which sets out the policy for the remuneration of Directors and executives of the Company. Section 250R(3) of the Corporations Act expressly provides that the vote on the resolution is advisory only and does not bind the Directors or the Company.

### **RESOLUTION 2 – ELECTION OF DIRECTOR – MR DAVID MURRAY**

Clause 3.3 of the Constitution states that the Directors may at any time appoint a person to be a Director, either to fill a casual vacancy or as an addition to the existing Board. Any Director so appointed holds office only until the next following annual general meeting and is then eligible for election.

Mr Murray was appointed to the Board on 8 September 2010 to act as non-executive Director. In accordance with clause 3.3 of the Constitution, Mr Murray now seeks election as a Director at this Annual General Meeting.

Mr Murray holds a Bachelor of Science (Civil Engineering) from 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.

Mr Murray worked for the Ingwe Coal Corporation (formerly Trans-Natal Coal Corporation Limited) from 1978 until 1999. 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 of BHP Billiton Coal. In 2001 he moved to Australia and was appointed Chief Executive Officer of BHP Billiton Mitsubishi Alliance, a position held until 2004.

In early 2005, Mr Murray moved to Melbourne to the global headquarters of BHP Billiton Limited when he accepted the position as the President Metallurgical Coal. With the decision made in early 2007 to merge Energy Coal and Metallurgical 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.

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

The Board (other than Mr Murray) recommends shareholders vote in favour of Resolution 2.

### **RESOLUTION 3 – RE-ELECTION OF DIRECTOR – MR SIMON FARRELL**

Mr Farrell retires by rotation in accordance with the Constitution and, being eligible, offers himself for re-election.

Mr Farrell has a Bachelor of Commerce from the University of Western Australia and an MBA from the Wharton School of the University of Pennsylvania. He is a Fellow of the Australian Society of CPA's and the Institute of Company Directors. He has held a number of senior management and Board positions, principally in the resources sector over the last twenty years. He is currently a Director of LSE listed Kenmare Resources plc and Bellzone Mining plc.

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

The Board (other than Mr Farrell) recommends shareholders vote in favour of Resolution 3.

### **RESOLUTION 4 – RE-ELECTION OF DIRECTOR – MR RICHARD LINNELL**

Mr Linnell retires by rotation in accordance with the Constitution and, being eligible, offers himself for re-election.

Mr Linnell was appointed a director on 1 August 2001. Mr Linnell is an experienced geologist, who has worked with various companies which now form part of the BHP Billiton group, culminating in running the Samancor Manganese operations and Billiton's exploration and development activities in Africa. Mr Linnell has been instrumental acting on behalf of Billiton in the establishment of the Bakubung Initiative, which is a multi-stakeholder project designed to rejuvenate the South African mining industry.

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

The Board (other than Mr Linnell) recommends shareholders vote in favour of Resolution 4.



## **RESOLUTION 5 – CHANGE OF AUDITOR**

Resolution 5 seeks Shareholder approval to the appointment of Deloitte Touche Tohmatsu of Level 14, 240 St. George's Terrace, Perth, to the office of auditors of the Company which will become vacant by virtue of the resignation of the existing auditors, Moore Stephens Perth, subject to ASIC's consent to the resignation.

Moore Stephens Perth currently act as auditors of the Company. Pursuant to section 327B of the Corporations Act, Moore Stephens applied to ASIC for consent to resign as auditor of the Company, with effect from the date of the Annual General Meeting.

The Company has received:

- (a) a nomination under section 328B of the Corporations Act, from Deloitte Touche Tohmatsu to be appointed as the Company's auditor, a copy of which is annexed as Annexure A to this Explanatory Memorandum;
- (b) a consent to act as auditors of the Company duly executed by Deloitte Touche Tohmatsu, registered company auditors; and
- (c) a written resignation from Moore Stephens, the Company's existing auditors.

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

The Board recommends shareholders vote in favour of Resolution 5.

## **RESOLUTION 6 - DISAPPLICATION OF PRE-EMPTION RIGHTS**

**Note: If approved, Resolution 6 will only take effect upon Admission. The New Constitution was adopted (conditional on and with effect from Admission) at the general meeting of the Company 14 October 2010.**

Clause 3.1(a) of the New Constitution requires that, subject to certain exceptions, before the Directors of the Company can allot any Shares or other equity securities, the new Shares or other equity securities must first be offered to existing shareholders in the Company in proportion to the shares or other equity shares that they hold at the time of the offer.

Clause 3.6(a) of the New Constitution provides that the Company in general meeting can resolve by special resolution that clause 3.1(a) does not apply to a specified allotment of equity securities. Therefore, the proposed Resolution 6 would allow the Directors to allot equity securities for cash only:

- a) up to a maximum of five per cent of the Company's issued share capital as at the date of the Annual General Meeting; and
- b) in a rights issue.

This means that the rights of existing shareholders in the Company are protected. If a Share issue is not a rights issue, the proportionate interest of existing shareholders in the Company could not, without their agreement, be reduced by more than five per cent. by the issue of new Shares or for cash to new shareholders in the Company. Such authority would expire on the date of the Company's next Annual General Meeting. The Directors have no present intention of exercising this authority but,

consider it desirable that they should have the flexibility to act in the interests of the shareholders in the Company when opportunities arise.

***Directors' Recommendation***

The Board recommends shareholders vote in favour of Resolution 6.

## **GLOSSARY**

### ***FOR THE PURPOSES OF RESOLUTIONS 1–6 AND THE EXPLANATORY STATEMENT, THE FOLLOWING DEFINITIONS APPLY:***

**"Admission"** means the admission of the Company's share capital to the Official List of the UK Financial Services Authority and to trading on the LSE's Main Market for listed securities;

**"Annual General Meeting"** means the annual general meeting convened by the Notice;

**"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 **"CZA"** 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;

**"LSE"** means the London Stock Exchange plc or its successor(s);

**"New Constitution"** means the new constitution adopted by the Company in general meeting in substitution for the existing Constitution of the Company, which will take effect from Admission;

**"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 fully paid ordinary shares in the Company;

**"UK Listing Rules"** means the Listing Rules of the LSE; and

**"WST"** means Western Standard Time.

**ANNEXURE A**

**LETTER OF NOMINATION FOR NEW AUDITORS**

To: Ms Shannon Coates  
Company Secretary  
CoAL of Africa Limited  
Level 1, 173 Mounts Bay Road  
PERTH WA 6000

Dear Ms Coates

**NOMINATION OF AUDITOR**

For the purpose of Section 328B(1) of the Corporations Act 2001 (Cth), I, Simon Farrell, being a member of CoAL of Africa Limited ("**Company**") hereby nominate Deloitte Touche Tohmatsu of Level 14, 240 St. George's Terrace, Perth, Western Australia for appointment as Auditor of the Company at the Annual General Meeting of the Company convened for 17 November 2010 at 3.00pm (WST) (or any adjournment thereof).

Signed:



---

Mr Simon Farrell

Dated: 4 October 2010



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  
Australia

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) Monday 15 November 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 the annual report:

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

Update your securityholding 24 hours a day, 7 days a week:

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

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

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 Annual General Meeting of Coal of Africa Limited to be held at The Park Business Centre, 45 Ventnor Avenue, West Perth, Western Australia on Wednesday, 17 November 2010 at 3:00pm (WST) and at any adjournment of that meeting.

## 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.

### Ordinary Resolutions

	For	Against	Abstain
Resolution 1 Adopt the Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 Election of Director - Mr David Murray	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 Re-election of Director - Mr Simon Farrell	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 Re-election of Director - Mr Richard Linnell	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5 Change of Auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### Special Resolution

Resolution 6 Disapplication of pre-emption rights	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
---	--------------------------	--------------------------	--------------------------

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

## 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 / /

# ANNUAL REPORT 2010



COAL of AFRICA LIMITED

ABN 98 008 905 388



## CONTACT DETAILS

**DIRECTORS**

Richard Linnell	Non- Executive Chairman
Simon Farrell	Executive Deputy Chairman
John Wallington	Chief Executive Officer & Executive Director
Blair Sergeant	Finance Director
Alfred Nevhutanda	Executive Director
Steve Bywater	Non-Executive Director
Peter Cordin	Non-Executive Director
Pierre Leonard	Non-Executive Director (resigned 27 August 2009)
Hendrik Verster	Non-Executive Director (appointed 27 August 2009, resigned 13 August 2010)
David Murray	Senior Non-Executive Director (appointed 8 September 2010)

**COMPANY SECRETARY**

Shannon Coates

**INCORPORATION & OPERATION**

Country of Incorporation: Australia  
AUS Company Number (ACN): 008 905 388  
Main Country of Operation: South Africa

**PRINCIPAL & REGISTERED OFFICE**

Level 1, 173 Mounts Bay Road  
Perth Western Australia 6000  
Telephone: +61 8 9322 6776  
Facsimile: +61 8 9322 6778  
Email: [perth@coalofafrica.com](mailto:perth@coalofafrica.com)

**SOUTH AFRICAN OFFICE**

2nd Floor, Gabba Building, Dimension Data Campus  
57 Sloane Street  
Bryanston  
Telephone: +27 11 575 4363  
Facsimile: +27 11 576 4363  
Email: [adminza@coalofafrica.co.za](mailto:adminza@coalofafrica.co.za)



## CORPORATE DIRECTORY

	AUSTRALIA	UNITED KINGDOM	SOUTH AFRICA
AUDITORS	<b>MooreStephens</b> 12 St Georges Terrace Perth WA 6000, Australia	N/A	<b>MooreStephens MWN</b> 7 West Street, Houghton 2198 South Africa <b>Deloitte &amp; Touche (NuCoal)</b> Deloitte Place, Building 1 The Woodlands, 20 Woodlands Drive Woodmead 2052, South Africa
BANKERS	<b>NAB Limited</b> Level 1, 1238 Hay Street West Perth WA 6005, Australia	N/A	<b>ABSA Bank</b> Palazzo Towers West Monte Casino Boulevard Johannesburg, South Africa
BROKERS	<b>Euroz Securities Limited</b> Level 14, The Quadrant 1 William Street Perth WA 6000, Australia	<b>Morgan Stanley</b> 25 Cabot Square London E14 4QA, United Kingdom <b>Mirabaud</b> 21 St James' Street London SW1Y 4JP, United Kingdom	N/A
LAWYERS	<b>Blakiston &amp; Crabb</b> 1202 Hay Street West Perth WA 6005, Australia	<b>Watson Farley Williams</b> 15 Appold Street London EC2A 2HB, United Kingdom	<b>Bowman Gilfillan</b> 165 West Street, Sandton 2196 South Africa
NOMAD/ CORPORATE SPONSOR	N/A	<b>Evolution Securities Limited</b> 100 Wood Street London EC2V 7AN, United Kingdom	<b>Macquarie First South Advisers (Pty) Limited</b> The Place, South Wing, 1 Sandton Drive, Sandown 2146 Johannesburg, South Africa
SHARE REGISTRIES	<b>Computershare Investor Services</b> Level 2, Reserve Bank Building 45 St Georges Terrace Perth WA 6000, Australia	<b>Computershare Investor Services</b> PO Box 82 The Pavillions Bridgewater Road Bristol BS99 7NH, United Kingdom	<b>Computershare Investor Services</b> Ground Floor, 70 Marshall Street Johannesburg 2001 South Africa
STOCK EXCHANGES	<b>ASX Limited (ASX)</b> <b>(Primary listing)</b> Exchange Plaza 2 The Esplanade Perth WA 6000, Australia	<b>AIM</b> <b>(Secondary listing)</b> London Stock Exchange 10 Paternoster Square London EC4M 7LS, United Kingdom	<b>Johannesburg Stock Exchange (JSE)</b> <b>(Secondary listing)</b> 1 Exchange Square Gwen Lane, Sandown 2196 South Africa

<b>CHAIRMAN'S LETTER</b>	<b>3</b>	<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY</b>	<b>39</b>
<b>MANAGING DIRECTOR'S OPERATIONAL REVIEW</b>	<b>5</b>	<b>NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS</b>	<b>40</b>
<b>DIRECTORS' REPORT</b>	<b>17</b>	<b>DIRECTORS' DECLARATION</b>	<b>94</b>
<b>CORPORATE GOVERNANCE STATEMENT</b>	<b>31</b>	<b>AUDITOR'S INDEPENDENCE DECLARATION</b>	<b>95</b>
<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</b>	<b>36</b>	<b>INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS</b>	<b>96</b>
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>	<b>37</b>	<b>TENEMENT SCHEDULE</b>	<b>98</b>
<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b>	<b>38</b>	<b>SHAREHOLDER INFORMATION</b>	<b>100</b>

#### **Resource Estimation:**

The information in this report that relates to exploration results, mineral resources or ore reserves is based on information compiled by the following persons:

1. In respect of the Mooiplaats Colliery, Vele Colliery and Makhado coking coal project, Mr Mark Craig Stewardson, who is registered as a Professional Natural Scientist (Pr Sci Nat, Reg. No. 400119/93) with the South African Council for Natural Scientific Professions ("SACNASP"), which is a Recognised Overseas Professional Organisation ("ROPO") in terms of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code"). Mr Mark Craig Stewardson is employed by Mineral Corporation Consultancy.
2. In respect of the Zonnebloem, Hartogshoop, Klipbank and Opgeedenhooft Collieries, Dr. Philip John Hancox, who is a member of the SACNASP (SACNASP No. 400224/04), which is a ROPO in terms of the JORC Code. Dr. Philip John Hancox is employed by Caracle Creek International Consulting (Pty) Limited.

Mr Mark Craig Stewardson and Dr. Philip John Hancox have sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the JORC Code. Mr Mark Craig Stewardson and Dr. Philip John Hancox consent to the inclusion in this announcement of the matters based on their information in the form and context in which it appears.



## CHAIRMAN'S LETTER

The past year witnessed the transformation of CoAL from an exploration and development company into a mining company. The strategic port and rail logistics plans previously undertaken ensure the Company is positioned to access the domestic South African and international coal markets. Furthermore, the Company will benefit from expansion at the Matola Terminal in Maputo, Mozambique, aligning its growing thermal and coking coal production with increased export capacity.

Safety remains a priority for CoAL and is the number one concern on my agenda. The Company has undertaken various initiatives to improve safety for our employees and contractors and we remain intent on operating without any injuries.

The change from a development company to a fully operational mining company requires additional skills and it is with this in mind that CoAL is pleased to have secured the appointment of John Wallington as Chief Executive Officer and Executive Director. John brings extensive coal mining experience to the Company and Simon Farrell has taken up the position as Executive Deputy Chairman where he will continue to perform a vital strategic role, maintaining the entrepreneurial momentum that has driven CoAL's exponential growth over the last five years.

Despite experiencing more resistance to the Vele Colliery from environmentalists than envisaged, CoAL aspires to be a good corporate citizen, mining in terms of global best practice and making all possible efforts to comply with all necessary legislation. I remain confident the Vele Colliery will be a success both for the shareholders and its neighbours in the environment.

The development of the Company into an operating entity is the culmination of several years of hard work. I would like to thank Simon and his team for their efforts and have no doubt that CoAL will continue to grow and become a significant coking and thermal coal producer.

Yours sincerely



**Richard Linnell**

*Chairman*





## H I G H L I G H T S

- Acquired NuCoal Mining (Pty) Ltd ("NuCoal") for ZAR 650 million, comprising the Woestalleen processing facility, the Zonnebloem, Klipbank and Hartogshoop open cast coal mines and the Opgoesdenhoop and Klipfontein coal projects ("Woestalleen Colliery");
- Executed an Exchange of Prospecting Rights Agreement ("Rio Farm Swap Agreement") with subsidiaries of the Rio Tinto Group to formalise the swap of properties ("Farm Swap") proximate to CoAL's Makhado coking coal project ("Makhado Project");
- Completed the acquisition of the remaining 26% interest in Limpopo Coal Company (Pty) Limited ("Limpopo Coal"), the owner of the Vele coking coal project ("Vele Colliery");
- Completed construction of the Company's laboratory in Polokwane, which is expected to reduce time delays for thermal and coking coal sample analysis;
- Received a New Order Prospecting Right ("NOPR") for coal bed methane over an area measuring 564 km<sup>2</sup> in the Limpopo Province, which includes the Makhado Project as well as neighbouring areas;
- Received approval from the South African Department of Mineral Resources ("DMR") for the extraction of a bulk sample from the Makhado Project for delivery to ArcelorMittal South Africa Limited ("ArcelorMittal SA");
- Obtained a New Order Mining Right ("NOMR") for the Vele Colliery;
- Granted a conditional NOMR for the Holfontein coal project ("Holfontein Project") (which is held available for sale) near Secunda in the Mpumalanga Province;
- Over \$200 million raised via share placements to fund the acquisition of NuCoal, development of the Vele Colliery, development of the Mooiplaats thermal coal project ("Mooiplaats Colliery"), and general working capital;
- Appointed Mr John Wallington as Chief Executive Officer ("CEO") and Executive Director;
- Achieved run of mine ("ROM") production for the year of 2,548,044 tonnes;
- Achieved 1,000 fatality free production shifts at the Zonnebloem open cast mine;
- Made first sales of Mooiplaats Colliery A grade exported via the Maputo port in Mozambique;
- First sales of Mooiplaats Colliery lower grade middlings coal to South Africa's electricity public utility, Eskom; and
- Cash balance at the end of the year of A\$101 million.

## MANAGING DIRECTOR'S OPERATIONAL REVIEW

The year ended 30 June 2010 followed on from the successes of the previous year as the Company commenced production of export quality thermal coal at the Mooiplaats Colliery, acquired Woestalleen Colliery, commenced the development of the Vele Colliery and continued exploration of the Makhado Project to an advanced stage. The Company commenced exporting coal from the Matola Terminal in Maputo Mozambique ("Matola Terminal") in early 2010.

During the year, the operations of the Company comprised:

- Mooiplaats Colliery, based in the Mpumalanga Province;
- Woestalleen Colliery, based in the Mpumalanga Province;
- Vele Colliery, based in the Limpopo Province;
- Makhado Project, based in the Limpopo Province;
- Holfontein Project, based in the Mpumalanga Province (classified as available for sale);
- Pan Africa Drilling, exploration company based in Madagascar;
- Coal of Madagascar, coal project located in Madagascar;
- Polokwane Coal Laboratory, located in the Limpopo Province; and
- NiMag Group, manufacturing and distribution of nickel and magnesium alloys.

The hiring of John Wallington as CEO, as well as key marketing and support staff, has ensured that the Company has the requisite skill base to maintain its rapid growth and achieve its goal of producing 5 million tonnes per annum ("mtpa") of thermal coal and 10 mtpa of coking coal.

### SAFETY

The Company has expended significant effort in developing and implementing an extensive and comprehensive safety and worksafe environment at all of its workplaces.

The Zonnebloem open cast mine, which forms part of the assets acquired as part of the Woestalleen Colliery acquisition, achieved the distinction of 1,000 fatality free production shifts during the year and has operated without any serious injuries since mining commenced in August 2008. As a result, the mine received recognition for this achievement from the DMR, as well as from the South African Colliery Managers' Association ("SACMA") at a coal industry safety function.

Safety management is a key focus at CoAL's projects but sadly, in July 2009, two employees of a contractor to CoAL were fatally injured in an accident at the Mooiplaats Colliery resulting from the unlawful access to and use of a vehicle by an unlicensed contractor. Immediately following the accident, operations were halted for three days whilst investigations were conducted by inspectors and mine officials of the DMR. The results of the official inquiry indicated no material breaches by the Company, but suggested legal prosecution of the driver and several of the contractors' officials.





## Managing Director's Operational Review (continued)



*Above and Right: Mooiplaats processing plant  
Below: Aerial view showing settling dams and discards facilities*



### MOOIPLAATS COLLIERY (100%)

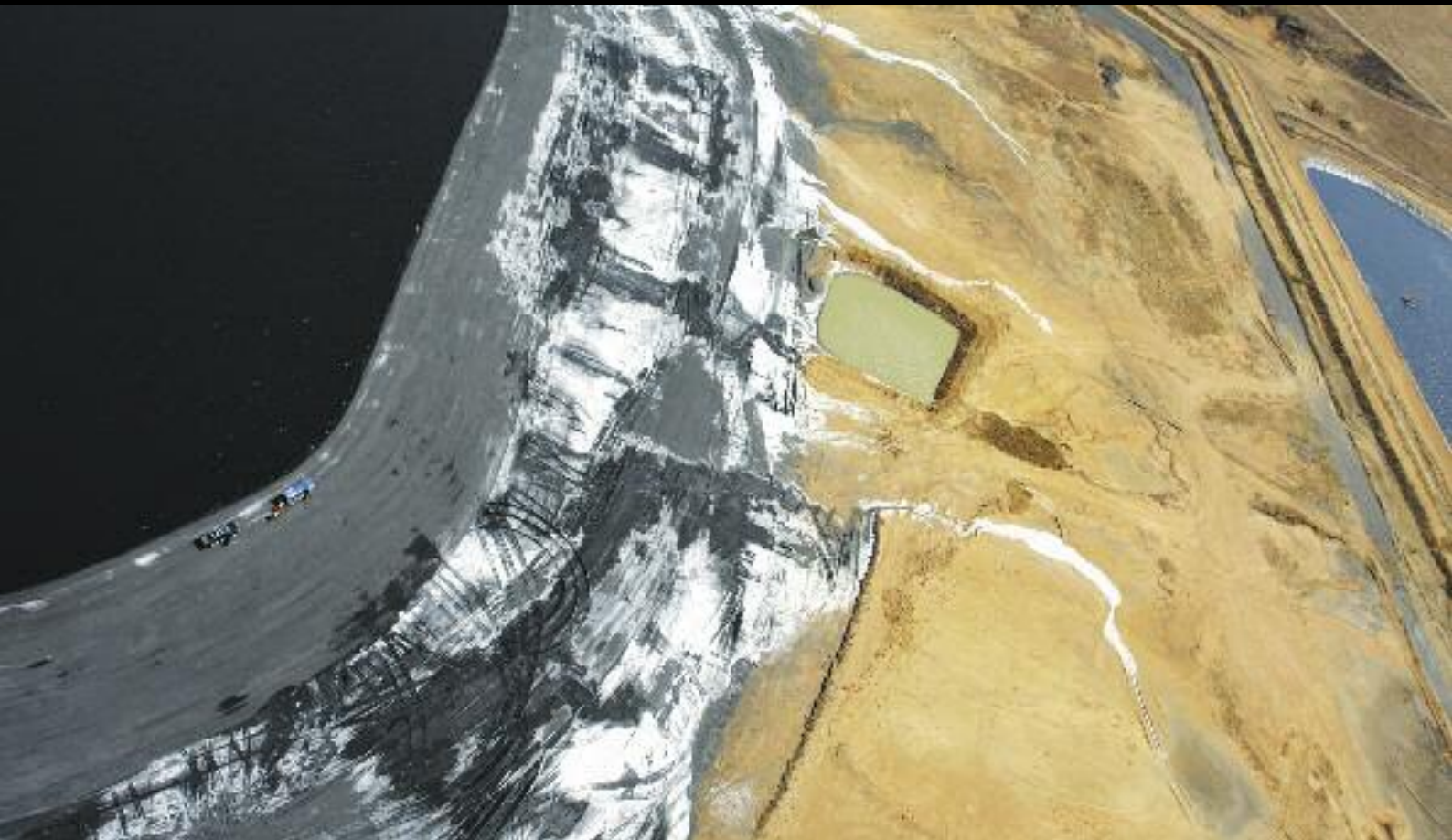
The financial year commenced with an extensive reassessment of the underground Mooiplaats Colliery mine plan and prevailing geological conditions, resulting in a revised mining layout which was re-affirmed by the completion of vertical as well as horizontal drilling programmes. The revised layout did not result in any material amendments to the anticipated tonnage schedules of the Mooiplaats Colliery's life of mine.

An application (together with an Environmental Management Plan ("EMP")) to extend the current NOMR to include the farms Klipbank and Adrianople was lodged with the DMR during the period. The extension will enable the development of the south decline shaft. Following discussions with the DMR, the EMP for the extension of the NOMR to include the farms Klipbank and Adrianople was re-submitted, facilitating the regulatory approval for the development of the south decline.

During the latter half of 2009, the second module of the Mooiplaats Colliery wash plant was commissioned. The remaining road and conveyor infrastructure and development of the Mooiplaats Colliery's north shaft were completed, and the Umlabo siding lease finalised, allowing for the railing of coal to the Matola Terminal. The increased wash plant capacity facilitates the processing of 200 tonnes per hour of ROM coal. The mining operations at the colliery commenced with the production of a high calorific value ( $>27\text{MJ/kg}$ ), mid volatile "lean" coal, which was trucked to the Umlabo siding, with the first train loaded and railed to the Matola Terminal during September 2009.







In early 2010, mining operations at the Mooiplaats Colliery entered the export quality bituminous (thermal) coal seam and, by the end of June 2010, three underground sections were all producing high quality thermal coal. The transition from lean to bituminous coal was associated with marked improvements in roof and floor conditions and a reduction in mining costs. The Company also commenced processing ROM coal purchased from a neighbouring third party to utilise spare processing capacity available during the ramp-up. The ramp-up of the Mooiplaats Colliery is expected to be completed before the end of the calendar year, with five sections expected to be producing 190,000 to 200,000 tonnes per month of ROM coal.

During the twelve month period, the processing plant produced 560,000 tonnes of primary product and 95,426 tonnes of the lower grade middlings product and by the end of the June 2010, the Company had exported 271,269 tonnes of coal, comprising both lean and export quality thermal coal. Towards the end of the period, the Mooiplaats Colliery commenced sales to Eskom, selling 51,909 tonnes of lower grade middlings product to the South African electricity public utility company. As a result of three weeks of strike action at Transnet Freight Rail ("TFR") in May 2010, the Company experienced significantly reduced quantities of coal railed to the Matola Terminal.

The Mineral Corporation Consultancy (Pty) Limited compiled a revised resource statement ("MinCorp Summary Report") calculated using a seam thickness cut-off of one metre, which recorded 79.4 million mineable tonnes in situ ("MTIS") for the Mooiplaats Colliery. CoAL had previously disclosed MTIS at 74.5 million tonnes ("Mt"). The B Upper Seam, which is currently being mined, has 56.3 million gross tonnes in situ ("GTIS") resources of which more than 95% is classed as measured. A seam thickness cut-off of 1.4 metres was used to define potentially mineable GTIS resources, as this is considered the minimum underground mining height from practical and economic aspects.





## Managing Director's Operational Review (continued)



*Above: Aerial view of the washplant at Woestalleen*

*Right: Aerial view of the pit at Hartogshoop*



### WOESTALLEEN COLLIERY (100%)

In October 2009, CoAL agreed to acquire NuCoal which owned 100% of the Woestalleen Colliery, a thermal coal producer in the proximity of CoAL's Mooiplaats Colliery. In January 2010, all outstanding suspensive conditions for the acquisition were fulfilled, resulting in the Company acquiring the Woestalleen Colliery and associated assets effective from 1 January 2010.

The Woestalleen Colliery and associated assets are situated in the Witbank coal field and include two beneficiation plants with a total nameplate capacity of 350,000 ROM feed tonnes per month, the Zonnebloem, Hartogshoop and Klipbank open cast coal mines and the Opgooedenhoop and Klipfontein coal projects. The mines are active surface (open pit), mined by conventional truck and shovel methods.

At the time the acquisition was entered into, the Woestalleen Colliery had one fully operational mine producing 350,000 tonnes per month of ROM coal and in December 2009 it commenced production at a second mine, Hartogshoop. The Woestalleen Colliery is forecast to produce 2.5 mtpa of saleable coal for domestic and export markets and has a number of off-take contracts in place as well as an allocation at the Richards Bay Coal Terminal. The Woestalleen Colliery currently supplies 360,000 tonnes per annum to Eskom's Camden power station.

Caracle Creek International Consulting (Pty) Limited ("CCIC") produced a Mineral Experts report for the Woestalleen Colliery in June 2010. CCIC estimated a total GTIS resource of approximately 48 Mt, of which 23 Mt are measured resources and a further 25 Mt are indicated resources. MTIS resources are estimated at 43 Mt. The estimated GTIS resource at Zonnebloem stands at approximately 11.77 Mt and there is considerable upside potential to jointly develop other resources not currently held by CoAL to the immediate north and east of Zonnebloem.

The Hartogshoop mine began production in December 2009 and currently has a steady rate of production, with a maximum capacity of 60 kt per month of ROM coal from a single box-cut 600 metres in length. The project has an estimated 1.2 GTIS and 1.1 MTIS. The Opgooedenhoop project has an estimated GTIS resource of 27.41 Mt. A NOMR has been granted in respect of the project, however mining has not yet commenced as the project remains under consideration.

During the six month period the Company has owned the Woestalleen Colliery, the Zonnebloem mine produced 1,542,868 ROM tonnes, Hartogshoop 449,451 ROM tonnes and Klipbank 154,730 ROM tonnes. 516,457 tonnes were sold as ROM coal and the balance trucked to the beneficiation plant, resulting in 1,030,140 tonnes of product, 84% of which was export quality coal and 204,590 tonnes of lower grade product, which was sold to Eskom. During three weeks in May 2010, no coal was railed to the Richards Bay Coal Terminal, Richards Bay Dry Bulk Terminal or the Matola Terminal as a result of the TFR strike. The re-commencement of rail transport was adversely affected by the limited availability of TFR rolling stock and strike related delays to the TFR occupation schedule.





*Above: Aerial view of Vele plant area showing pollution control pads for stockpiles  
Left: Temporary secondary crushing and sizing plant facing South at Vele*

#### **VELE COLLIERY (100%)**

During the year, the Company issued 7,615,750 shares to acquire the remaining 26% of the Vele Colliery. In February 2010, the DMR granted the Company a NOMR, which was executed in March 2010, allowing for the commencement of the colliery development.

By the end of June, development had progressed well and production is expected to commence pending the grant of an integrated water use licence ("IWUL"). During the development phase

of the Project, approximately 850 jobs were created, the majority of which were staffed by residents from the nearby towns of Musina and Alldays. The development phase will be followed by the production phase, which is expected to create an additional 460 job opportunities, also to be primarily staffed by residents from nearby towns.

The Company completed extensive and thorough economic, social and environmental studies for the Vele Colliery's NOMR application. These consisted of a mine works program ("MWP") and social and labour plan ("SLP") which were submitted to the DMR in November 2008. These were followed by the environmental impact assessment ("EIA") scoping report in December 2008. Extensive consultation was conducted with interested and affected parties ("IAP's"), whilst the EIA was carried out by a group of specialist independent consultants, each covering their respective areas of expertise as required by the scoping report. The process culminated in a widely publicised open day in April 2009 attended by more than 170 persons representing various interest groups and IAP's. The comments received during this session, as well as from the IAP consultation process, were taken into account in preparation of the Environmental Management Plan ("EMP"), which was then submitted to the DMR in mid-May 2009 (nine months before the NOMR was granted by the DMR) with the EIA documents, together comprising more than 2,200 pages.

The comprehensive EMP and EIA documents submitted to the DMR committed the Company to the highest level of environmental and social performance. During the year, dust monitors were erected on the Vele Colliery area, as well as on neighbouring farms, and water monitoring boreholes have been drilled for the IWUL plan for the project, which is being compiled by independent consulting engineers.

During August 2010, CoAL responded to a press article published by Reuters on 30 July 2010 regarding comments made by the South African Minister of Water and Environmental Affairs, Ms Buyelwa Sonjica, relating to its Vele Colliery.

On 2 August 2010, the Company stated that all activities undertaken at the Vele Colliery had been carried out in accordance with the NOMR granted for the Vele Colliery and the Company had not undertaken any activities for which authorisation had not been given. The NOMR, which was executed on 19 March 2010, together with the approved Environmental Management Plan in respect of the Vele Colliery, as well as the rights afforded the Company under the South African Mineral and Petroleum Resources Development Act ("MPRDA") permitted it to start development activities on site.



## Managing Director's Operational Review (continued)



*Thickener, Spiral and secondary wash plants facing North at Vele*

The Company acknowledged that on 7 April 2010, the South African Department of Environmental Affairs ("DEA") refused CoAL authorisation to build an access road on one of the CoAL-owned Vele farms, Erfrust 123 MS, adjoining the Vele Colliery mining right area and to construct above ground bulk fuel storage facilities. CoAL has appealed these decisions and clarified that it has not and will not start construction of this access road on Erfrust or storage facilities until the required approvals have been received. Although the proposed access road does not prevent the Vele Colliery from operating, it would considerably shorten the distance from the mine site to the main road.

CoAL sought these additional authorisations in accordance with the requirements of the South African National Environmental Management Act, Act No. 107 of 1998 ("NEMA"). The requirement to approve these additional activities are listed under NEMA, but not directly related to the authorised mining operations. The Company has subsequently been served with two pre-compliance notices ("Pre-Compliance Notice") from the DEA alleging various matters, including that the Vele Colliery has proceeded with the construction of the access road and storage facilities. As stated above, the Company has not undertaken any activities for which authority has not been granted.

On 1 September 2010 the Company disclosed that it had held several constructive meetings with the DEA, some of which were attended by the Director General of the DEA. CoAL has adhered to the Pre-Compliance Notice issued by the DEA and is in the process of submitting rectification applications in terms of section 24G of NEMA to continue with the activities. The Company has also applied to the Minister for the suspension of the Pre-Compliance Notice during this process.

The Company still awaits approval of its application for an IWUL for the Vele Colliery which was submitted to the South African Department of Water Affairs ("DWAF") on 10 November 2009. CoAL is liaising with the relevant authorities on an ongoing basis to enable the granting of the IWUL, which is required before the Company can commence any mining or processing activities at the Vele Colliery. However the IWUL is not required for the development activities which have been carried out to date.

The Company has also applied to DWAF regarding the directive requesting the cessation of related specific activities pending the issue of the IWUL. As required in the directive, an Independent Environmental Assessment Practitioner has been appointed to assess the current and proposed activities in conjunction with the IWUL process with respect to the impact on the risks to the water source.

CoAL has made significant progress in satisfying the technical requirements raised by the DEA and the Company is confident that with continued liaison between itself, the DEA and DWAF, the issues will be satisfactorily resolved. The timelines required to complete the processes have resulted in the Company having no choice but to reduce the workforce at the Vele Colliery by 596 people. The Company expects to re-commence development activities in late 2010.

Some environmental groups have stated their opposition to the Vele Colliery due to the potentially sensitive nature of the area and the proximity of the Colliery to the Mapungubwe World Heritage Site and National Park the centre of which, Mapungubwe Hill, lies at least 20km away from Vele.

On 5 August 2010, CoAL advised that court papers had been served in a South African High Court interdict application on its wholly owned subsidiary, Limpopo Coal, the company that owns the Vele Colliery. The applicants comprised a group of predominantly environmental and conservational non-governmental organisations ("Applicants").

CoAL responded to these appeals in August 2010 and the appellants had 21 days to comment (subject to any application to extend time) on CoAL's response, following which the Minister of Mineral Resources (for the NOMR appeals) and the Director-General (for the EMP appeal) had 30 days in which to make a decision.

As the Company has previously advised, the execution of the NOMR and approval of the EMP was the result of an extensive and exhaustive process spanning a period of more than 18 months, including public and government participation (including the DWAF and DEA) and the engagement of over 12 independent experts who contributed to a comprehensive Environmental Impact Assessment. The Company is confident that it has addressed concerns and designed sufficient mitigation into the mining layout and processes to ensure co-existence with eco-tourism and agriculture in the area. The Vele Project will introduce much needed investment, employment and economic growth into one of the poorest regions of South Africa. The dual benefits of reduced imports of coking coal as well as potential exports from the Vele Colliery to the national balance of payments also cannot be underestimated.

As previously announced, the Company plans to implement the project in two phases. Phase 1 will comprise the establishment of a modular coal treatment plant with capacity to deliver approximately 1 million saleable tonnes of blend coking coal per annum. As a result of the modular nature of the plant, capacity may be doubled, dependant on market conditions. Phase 2 will require the construction of the full-scale coal treatment plant (the design of which has been completed by Dowding Reynard & Associates) to deliver 5 million tonnes of blend coking coal per annum, at which point it is intended that the underground operations will be established. The implementation of Phase 2 will also be dictated by market conditions.

CoAL undertook a significant amount of preparation in anticipation of the granting and execution of the NOMR, including the construction and pre-commissioning of the modular coal processing plant at a site in Cape Town. The modular wash plant was designed and constructed by ELB Engineering, the engineering, procurement and management contractor, in conjunction with PBA Projects, based on designs used in the marine diamond mining industry. The wash plant modules have been transported and installed on the project area by ELB Engineering and will be commissioned on granting of the IWUL.

Initial mining will utilise opencast methods, which will contribute to lower initial mine establishment costs. MCC Contracts ("MCC") a division of Eqstra Holdings Limited, one of the largest mining contractors in South Africa, has been appointed as mining contractor for this portion of the Vele Colliery. Phase 1 capital requirement is estimated at ZAR450 million, whilst the establishment of the full-scale mine is expected to cost in the region of ZAR3 billion. Work has commenced on the upgrading of the rail siding in Musina and is expected to be concluded by the end of Q1 of 2011.

The MinCorp Summary Report completed during the year found that the Vele Colliery contains a GTIS and MTIS resource of 813.5 Mt and 690 Mt, respectively. The current GTIS estimate reflects an increase in the GTIS tonnage of approximately 93 Mt from CoAL's previous estimate of 720.8 Mt. The potential opencast GTIS resources in all four targeted seams total 333 Mt, while only the bottom lower seam (GTIS resource of 212 Mt) is targeted for underground extraction. The Free Swelling Indices ("FSI") determined on a 12% ash are relatively high, ranging from 7.5 to 8.5, while Gray King and Roga Indices are similarly high, ranging from G8 to G11 and 84 to 90 respectively. On the basis of the bulk sampling test work, the coal from the Vele Colliery could be categorised as a high volatile soft (blend) coking coal.





## Managing Director's Operational Review (continued)

*Above: Aerial view of Makhado bulk sample pit with stockpiles in the foreground*

*Right: Aerial view of Makhado bulk sample pit being excavated*



### MAKHADO PROJECT (100%)

During the year, the Company completed an additional 103 exploration holes bringing the total metres drilled on the Makhado Project by CoAL to over 11,500 metres. The exploration boreholes of the large diameter drilling programme provided additional cores for bulk sample analysis and assisted in delineating the southern and northern limits of the coal seams. The boreholes also provided further information for the revised geological model, which will include both sedimentology as well as geological structure and will be used to update the mine model. A Definitive Feasibility Study commenced on the project, the results of which are expected towards the end of 2010.

CoAL, in conjunction with Rio Tinto, prepared and submitted the documentation for s102 approval in terms of the South African Minerals and Petroleum Resources Development Act, 2002, required by the DMR to effect the Rio Tinto Farm Swap. On 13 September 2010, the Company advised that s102 approval had been granted by the DMR, enabling the Company to submit the prepared documentation required for the NOMR application for submission to the DMR. The Farm Swap involves the cession of ownership of certain Rio Tinto controlled NOPR that are contiguous to the Makhado Project to CoAL. In return, the Company will cede certain NOPR and interests therein to Rio Tinto controlled entities and, on satisfaction of all conditions precedent, CoAL will pay a premium of ZAR12.5million.

The Company has received approval from the DMR for the extraction of a bulk sample from the Makhado Project. The sampling is expected to occur by the end of the calendar year and will involve the extraction of 19,100 tonnes of ROM coal, which will be transported to Tshikondeni Colliery, owned by Exxaro Resources Limited ("Exxaro"), where it is expected to be beneficiated to 4,400 tonnes of coking coal with a 12% ash content. The coal sample will be tested by ArcelorMittal SA in their coking ovens at Vanderbijlpark and is intended to facilitate the finalisation of certain terms and conditions related to volumes and pricing for the proposed off-take agreement between CoAL and ArcelorMittal SA.

In March 2009, CoAL reached agreement with Exxaro Coal (Pty) Limited a wholly owned subsidiary of Exxaro, whereby the Company granted Exxaro an option subject to certain conditions, to acquire up to 30% of the Makhado Project for cash consideration equal to the net present value of the Makhado Project less a 20% discount. Exxaro is South Africa's largest black-controlled, diversified mining company and the fourth largest South African coal producer. At the end of June 2010, Exxaro retained its option to participate in the Makhado Project.

The MinCorp Summary Report detailed that the Makhado Project contains an estimated total GTIS resource of 947 Mt for the coal deposits contained in the contiguous Windhoek, Tanga, Fripp and Lukin farms (held by CoAL) and Salaita and Telema (held by Rio Tinto), of which 387 Mt is measured resource and 542 Mt is indicated resource and comprises an opencast resource of 311.5 Mt. Results for analysis of slim core samples from the CoAL boreholes indicate an overall average yield of 19.5% for a coking coal product with an ash content of 12%. Average product yields from LD samples are higher and in some seams, yields of over 30% were shown. The vitrinite reflectance, FSI and volatile matter contents suggest that the Makhado product has the potential to be classed as a medium volatile, semi-hard coking coal. This is expected to be confirmed when further results of specialised test work are received.

### POLOKWANE COAL LABORATORY (100%)

The construction of a state of the art analytical coal laboratory in Polokwane commenced in April 2009 and was completed in early 2010. The facility is being managed by the international laboratory group, Inspectorate, ensuring cost effective operation and qualification for any required accreditation. During the year, the facility commenced performing petrographic, thermal and various other coal qualitative tests on samples from the Company's Vele and Makhado Projects. Construction of bulk sample storage areas are due to be completed in Q3 2010.

The development of this new laboratory facility has resulted in the creation of 33 permanent jobs for skilled staff and a further 2 for unskilled staff. The number of new job opportunities is expected to grow by a further 23 skilled staff for the laboratory facilities at both the Vele and Makhado Projects once production has commenced. The Laboratory has applied for SANAS 17025 accreditation for the majority of the procedures undertaken at the facility and approval is expected in Q4 2010.

The Laboratory will have the capacity to provide analytical services to third parties and is considered by CoAL to be the most sophisticated coal laboratory in the southern hemisphere.

### HOLFONTEIN PROJECT (100%)

In early February 2010, the DMR granted the Company a NOMR for its Holfontein Project situated near Sasol's Secunda coal production area, conditional upon the delivery of certain documents to the DMR. During the period, the Company obtained an independent valuation of the Holfontein Project which resulted in an AS8,692,665 impairment. The Company continues to classify Holfontein as a non core asset available for sale.

The Company has been tentatively approached by interested parties and expects to enter a formal sale process during Q4 2010.

### PORT ALLOCATION

CoAL has secured long term port allocation through the Matola Terminal and expects that the export of metallurgical coal mined at its Makhado Project and Vele Colliery will take place via this terminal. The agreement with Terminal De Carvao Da Matola Limitada and Grindrod provides for an allocation of 1 mtpa through the Matola Terminal, commencing in 2009, and CoAL has secured the rights to up to 100% of any increased capacity at the Matola Terminal in return for the Company participating in the funding of the expansion. The first phase of Grindrod's intended two phase expansion of the terminal will increase CoAL's export capacity to 3 mtpa, due for commissioning by Q1 2010 and on completion of the second phase of expansion, CoAL will have a total capacity of 13 mtpa of the terminal's annual 16 mtpa capacity. The results of the feasibility study for the next 10 mtpa expansion phase are expected in the second half of 2010.

The Company funded the required US\$16 million for the proposed 2 mtpa expansion at the Matola Terminal, which will increase CoAL's export allocation at the port to 3 mtpa. The increased port capacity is expected to be operational in Q4 2010 while the Company expects to utilise a significant portion of its port allocation in 2010, eliminating potential take or pay liabilities.



*Matola Terminal, Maputo Mozambique*



## Managing Director's Operational Review (continued)

**IMALOTO COAL PROJECT IN MADAGASCAR (50%)**

The Company has a 50% interest in the Imaloto coal project located in the Madagascar. The interest consists of 43 blocks extending over an area of 270km<sup>2</sup> which comprises of over 90% of the Imaloto Basin and additional 14 blocks of over 90km<sup>2</sup> in adjacent coal basins. Exploratory drilling consists of three phases and by the end of the year, phase 1 and phase 2 were complete comprising over 6,000 metres. Results of the laboratory analysis are expected later in 2010. The exploration drilling identified five bright to intermediate coal seams with the main seam widths averaging in excess of 2 metres, and a defined an inferred resource of approximately 200mt.

**NIMAG GROUP ("NIMAG") (100%)**

NiMag is engaged principally in the manufacture and distribution of nickel magnesium alloys and ferro silicon magnesium alloys, and currently manufactures specialised master alloys of nickel and magnesium for the specialised foundry industry including aerospace, aeronautical, motor, steel mill roll and associated industries.

In August 2009, Paul Holmes was appointed Managing Director of the NiMag Group and has been tasked with growing the NiMag Group via the acquisition of companies with similar production profiles and the identification of new clients and products. The combined effect of cost cutting measures, an improvement in nickel prices, together with increased demand for the NiMag Group's products resulted NiMag returning to profitability. Management is focused on developing the NiMag Group and in a bid to expand the Group's product package as well as earnings, has identified potential acquisition targets, the financing of which will be funded by internally generated cash flows. Furthermore, NiMag commenced research and development programme to develop new products.

**BLACK EMPOWERMENT TRANSACTION**

During the financial year, the Company reached agreement with its BBBEE partners to ensure CoAL takes a significant step towards compliance with South African Black Economic Empowerment ("BEE") legislation. The arrangement replaces the previous agreement with Coal Investments Limited ("CIL") pursuant to which CIL subscribed for shares and was granted an option to subscribe for 50 million CoAL shares.

The BBBEE consortium is led by Firefly Investments 163 (Pty) Limited ("Firefly") which is wholly owned and controlled by historically disadvantaged South Africans. Pursuant to the transaction, CoAL has granted an option to Firefly to subscribe for a total of 50 million shares at 60 pence per share, exercisable between 1 November 2010 and 1 November 2014. Any shares issued on exercise of the option will be subject to a 12 month "lock-in period".

Firefly will undertake to, within a period of three months, distribute the rights under the agreement to subscribe for shares to the King of the VhaVenda, His Majesty Khosi Khulu Toni Mphephu Ramabulana, representing his constituents of the Mudimeli, Musekwa, Makushu-Musholombi and Tshivhula communities, relevant female empowerment and youth groups as well as a special purpose vehicle to promote and develop entrepreneurs in the Limpopo province.

Firefly also has the right to nominate two persons to the CoAL Board. To facilitate the BBBEE transaction, the Company's second largest shareholder, African Global Capital I, L.P., an entity associated with Mvelaphanda Holdings (Pty) Limited, Palladino Holdings Limited and OZ Management LP, and its affiliate CIL, have entered into an agreement with Firefly in terms of which amongst other provisions, they will cede their voting rights over their ordinary shares in CoAL to Firefly for a period of time.

## ENVIRONMENTAL MANAGEMENT

CoAL is committed to ensuring minimal adverse impact on the environment. In terms of environmental management, the Company is committed to sustainable business models for all stakeholders, compliance with all applicable environmental legislation, environmental best practice and progressive programmes to minimise the environmental impacts of the Company's projects. At the Vele Colliery, ZAR500 million has been committed over thirty years to ensure the highest levels of environmental and social performance, subject to receipt of a positive response to the Company's NOMR application.

Conclusively, CoAL believes that sustainable investment in communities and the environment makes a positive difference and delivers tangible benefits to its business. The Company's community programmes assist it to attract new talent, engage with stakeholders and generate widespread prosperity.

## CORPORATE SOCIAL RESPONSIBILITY

CoAL believes that it can play a significant role in the development of the communities in which it operates. Its strategy seeks to foster and forge partnerships through sustainable development. The key focus areas of the Corporate Social Responsibility programmes of CoAL are education and skills development, community development and environmental best practices.

CoAL is confident that a skilled population will contribute to the economic success of the nation as a whole. In Limpopo, to address low skill levels within the community, CoAL established the Thovele Toni Mphethu Ramabulana Bursary Fund in 2009 and extended it to Mpumalanga in 2010. The scheme seeks to encourage more students to study mining-related courses, equipping them with the skills to pursue a career in mining. To date, ZAR6.65 million has been invested by the Company towards the education of 32 students currently studying under this scheme. The Bursary Fund has made a notable difference to students from under privileged groups in the region, particularly those who may not have otherwise afforded tertiary education.

## STAKEHOLDER MANAGEMENT

Forums with different stakeholder groups in the Limpopo and Mpumalanga Provinces have enabled CoAL to communicate its strategy and intentions to local communities and stakeholders. These pro-active interactions have ensured that accurate information is disseminated in a timely manner to all key stakeholders. A major benefit of this approach has been the ability to receive direct feedback, which enables informed future decision making on issues raised.

## CONCLUSION

This will be my last operational report as the Managing Director for the Group. The Company has grown from a cash shell to an entity with massive coal resources, a first class management team and a capitalisation of roughly a billion dollars.

Under the guidance of our new CEO, John Wallington, I am completely confident that we are well on our way to becoming a highly profitable and significant coal producer.

The future is very bright and I want to thank my fellow workmates at CoAL for making the journey so fruitful and exciting.

Finally, I would like to thank our loyal shareholders for their much appreciated support and encouragement both to me personally and the Company as a whole.



**Simon Farrell**

*Executive Deputy Chairman*





COAL of AFRICA LIMITED



## DIRECTORS' REPORT

The Directors submit their report together with the financial statements of Coal of Africa Limited ("CoAL" or "the Company") and its controlled entities (the "Consolidated Entity" or "Group") for the year ended 30 June 2010 and the Auditor's Report thereon.

### DIRECTORS

The names of Directors in office at the date of this report, or during the reporting period are as follows. Unless otherwise stated, Directors held office for the entire reporting period.

#### **RICHARD LINNELL** Non-Executive Chairman

Mr Linnell has been active in the resources and metals fields for over forty years and has significant global experience in the development and marketing of resources and commodities. He was the originator of the Bakubang Initiative, a forum designed to revive the South African mining industry and which led to the establishment of the New Africa Mining Fund, of which he is Chairman of Trustees. He holds a number of other Directorships. Mr Linnell will be retiring and seeking re-election by shareholders at the Company's 2010 Annual General Meeting.

#### **SIMON FARRELL** Executive Deputy Chairman

Mr Farrell has a Bachelor of Commerce from the University of Western Australia and an MBA from the Wharton School of the University of Pennsylvania. He is a Fellow of the Australian Society of CPAs and the Institute of Company Directors. He has held a number of senior management and Board positions, principally in the resources sector over the last twenty years. He is currently a Director of London Stock Exchange listed Kenmare Resources plc and Bellzone Mining plc. Mr Farrell will be retiring and seeking re-election by shareholders at the Company's 2010 Annual General Meeting.

#### **JOHN WALLINGTON** (appointed 15 June 2010) Chief Executive Officer ("CEO") and Executive Director

Mr Wallington holds a BSc in Mining Engineering from the Witwatersrand University in Johannesburg, South Africa and has participated in executive programmes with both the London Business School and the Harvard Business School. He joined Anglo American in 1981 and was CEO of the South African Region before being appointed as CEO of Anglo Coal globally. Mr. Wallington held the position of CEO for the Anglo Coal Division between 2005 and 2008 and has 30 years experience in the coal exploration and mining industry.

#### **BLAIR SERGEANT** Finance Director

Mr Sergeant graduated with a Bachelor of Business and a Post Graduate Diploma in Corporate Administration, both from Curtin University, Western Australia. He is a member of the Chartered Institute of Company Secretaries and an Associate of the Australian Society of Certified Practising Accountants. Mr Sergeant's experience includes senior management and executive positions with numerous listed public companies across a broad spectrum of industry internationally.

#### **PROFESSOR ALFRED NEVHUTANDA** Executive Director

Professor Alfred Nevhutanda has two PhD's (in Education Environment and Arts Culture), a diploma in Management Studies and an MBA, has been involved in a number of diversified businesses and served as a leader in various academic fields, as well as held various political appointments. He has acted as an advisor to the King of the Vhavenda, Ministers and Members of the Executive Council of the ruling party.

#### **PETER CORDIN** Non-Executive Director

Mr Cordin has a Bachelor of Engineering from the University of Western Australia and is well experienced in the evaluation, development and operation of resource projects within Australia and overseas. He is the Managing Director of ASX listed Dragon Mining Limited and non-executive director of Vital Metals Limited.

#### **STEVE BYWATER** Non-Executive Director

Mr Bywater has a distinguished career in the resources industry, developing and operating a total of 14 large-scale open pit and underground mining operations and their associated services, logistics and infrastructure. When working for Rio Tinto Coal Australia, he was Chief Operating Officer, and in this position oversaw seven mining operations, producing 60 million tonnes of saleable coal a year. Mr Bywater has a B.Sc. in Engineering Geology and Geotechnics from Portsmouth University and a M.Sc. in Rock Mechanics and Excavation Engineering from Newcastle-upon-Tyne. He is also Chief Executive of GCM Resources plc.

#### **DAVID MURRAY** (appointed 8 September 2010) Senior Independent Non-Executive Director

Mr Murray has held a number of senior positions in the global coal industry, including Managing Director of Ingwe Coal Corporation (formerly Trans-Natal Coal Corporation Limited), Chief Executive of BHP Billiton Mitsubishi Alliance and President of Energy Coal Sector Group at BHP Billiton Limited, a position he held until December 2009. Mr Murray holds a Bachelor of Science Degree (Civil Engineering) from the University of KwaZulu-Natal 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. Mr Murray will be retiring and seeking re-election by shareholders at the Company's 2010 Annual General Meeting.

## Directors' Report (continued)

**PIERRE LEONARD** (resigned 27 August 2009) **Non-Executive Director**

Mr Leonard has a PhD in Industrial Engineering from the University of Pretoria in South Africa and over 13 years of experience in the metals and mining industry. He has held key positions in strategy and business development and currently holds the title of General Manager, Mergers and Acquisitions for ArcelorMittal as well as a number of Directorships in unlisted subsidiaries of ArcelorMittal.

**HENDRIK ("KOBUS") VERSTER** (appointed 27 August 2009, resigned 13 August 2010) **Non-Executive Director**

Mr Verster has 15 years finance experience within the ArcelorMittal Group. He was Executive Director Finance for ArcelorMittal South Africa and a Board member of various unlisted ArcelorMittal Group companies. Mr Verster is also a Director of the National Business Initiative in South Africa, a regional partner to the World Business Council for Sustainable Development, a volunteer group of leading national and multi-national companies which work together towards sustainable growth and development through partnerships, practical programmes and policy engagement.

**SHANNON COATES** **Company Secretary**

Ms Coates held the position of Company Secretary for the financial year and is a qualified lawyer with over 17 years of experience in corporate law and compliance.

**DIRECTORSHIPS IN OTHER LISTED ENTITIES**

Directorships of other listed entities held by Directors of the Company during the last 3 years immediately before the end of the year are as follows:

DIRECTOR	COMPANY	PERIOD OF DIRECTORSHIP	
		FROM	TO
Mr Richard Linnell	Namakwa Diamond Company NL	2003	2008
	GRD Minproc Ltd	2004	2009
	Chrome Corporation Limited	2005	2009
	GMA Resources plc	2003	2009
	Falkland Gold and Minerals plc	2004	2008
	SacOil Holdings Limited (previously SA Mineral Corporation Limited)	2002	Present
	Maghreb Minerals plc	2008	Present
	IPSA Group plc	2010	Present
	Brinkley Mining plc	2007	2009
	Mag Industries Corp Incorporated	2002	Present
	Rockwell Diamonds Incorporated	2009	Present
Mr Simon Farrell	Kenmare Resources plc	2002	Present
	Bellzone Mining plc	2010	Present
Mr John Wallington	Firestone Resources Limited	2009	Present
	Keaton Energy Limited	2008	2010
Mr Blair Sergeant	Vmoto Limited	2004	2009
	Millepede International Limited	2002	2008
	Ram Resources Limited	2008	2010
Prof Alfred Nevhutanda	-	-	-
Mr Peter Cordin	Dragon Mining Limited	2006	Present
	Vital Metals Limited	2009	Present
Mr Steve Bywater	GCM Resources plc	2006	Present
	Regent Pacific Group	2007	Present
Mr Pierre Leonard	-	-	-
Mr Hendrik Verster	ArcelorMittal South Africa Limited	2006	2010
Mr David Murray	-	-	-

## MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2010 that each Director was eligible to attend and the number of meetings attended by each Director:

DIRECTOR	BOARD MEETINGS	
	HELD	ATTENDED
Mr R Linnell	10	9
Mr S Farrell	10	10
Mr J Wallington	-	-
Mr B Sergeant	10	9
Mr P Cordin	10	10
Mr S Bywater	10	10
Mr P Leonard	1	1
Prof A Nevhutanda	10	8
Mr H Verster	9	6

## PRINCIPAL ACTIVITIES

The principal activity of the Consolidated Entity is the exploration, development and mining of its coal interests in South Africa. During the 2010 financial year, the Company commenced production of export quality thermal coal from its Mooiplaats Colliery in Mpumalanga, South Africa. The Company also completed the acquisition of the NuCoal group of companies which includes the Woestalleen, Klipbank and Zonnebloem collieries, as well as several other prospects. CoAL commenced exporting coal from the Matola Terminal in Maputo, Mozambique, and the development of the port will ensure the Company has sufficient export capacity to overcome one of the significant infrastructure constraints faced by most bulk commodity miners.

During the year, the Company:

- Obtained a New Order Mining Right ("NOMR") for the Vele coking coal project ("Vele Colliery");
- Acquired NuCoal Mining (Pty) Ltd ("NuCoal") comprising the Woestalleen processing facility, the Zonnebloem, Klipbank and Hartogshoop coal mines ("Woestalleen Colliery") and the Opgoesdenhoop and Klipfontein coal projects;
- Executed an Exchange of Prospecting Rights Agreement ("Rio Farm Swap Agreement") with subsidiaries of the Rio Tinto Group to formalise the farm swap of properties proximate to the Makhado coking coal project ("Makhado Project");
- Completed the acquisition of the remaining 26% interest in Limpopo Coal Company (Pty) Limited ("Limpopo Coal"), the owner of the Vele Colliery;
- Completed construction of the Company's laboratory in Polokwane, which is expected to reduce time delays for thermal and coking coal sample analysis;
- Received a New Order Prospecting Right ("NOPR") for coal bed methane over an area measuring 564 km<sup>2</sup> in the Limpopo Province which includes the Makhado Project as well as neighbouring areas;
- Received approval from the South African Department of Mineral Resources ("DMR") for the extraction of a bulk sample from the Makhado Project for delivery to ArcelorMittal South Africa Limited ("ArcelorMittal SA");
- Was granted a conditional NOMR for the Holfontein coal project ("Holfontein Project") near Secunda in the Mpumalanga Province;
- Raised over \$200 million via share placements to fund the acquisition of NuCoal, development of the Vele Colliery and Mooiplaats Colliery, and other general working capital requirements;
- Appointed Mr John Wallington as Chief Executive Officer ("CEO") and Executive Director;
- Achieved run of mine ("ROM") production for the year of 1,876,619 tonnes;
- Achieved 1,000 fatality free production shifts at the Zonnebloem open cast mine; and
- Made first sales coal from Mooiplaats Colliery including maiden export coal and lower grade middlings coal to Eskom.

**Directors' Report (continued)****RESULTS**

The loss of the Consolidated Entity for the 2010 financial year after income tax and minority interests was \$101,441,293 (2009: loss of \$14,519,976). The cash balance at the end of the year was \$101 million.

**DIVIDENDS PAID OR RECOMMENDED**

No amounts were paid or declared by way of dividend by the Company. The Directors do not recommend payment of a dividend in respect of the financial year ended 30 June 2010.

**SHARE ISSUES**

The Company raised over \$200 million during the year through share placements. The proceeds of the issues were used to fund the acquisition of NuCoal, development of the Vele Colliery and the Mooiplaats Colliery, as well as general working capital. 1,990,000 shares were issued for the acquisition of 6% of Limpopo Coal Company (Pty) Ltd, the Company that owns the Vele Colliery. A further 5,625,000 shares were issued for the remaining 20% of the Vele Colliery.

**RECOGNITION OF THE HOLFONTEIN PROJECT**

The Holfontein Project continues to be recognised as a non-current investment held for sale and the Company expects to enter a formal sale process in the second half of 2010.

**DISPOSAL OF INTEREST IN SUBSIDIARIES**

During the year, the Company did not dispose of any subsidiary or associate companies.

**OPERATIONS**

During the year, the operations of the Consolidated Entity included:

- Mooiplaats Colliery, based in the Mpumalanga Province;
- Woestalleen Colliery (incorporating the NuCoal Group), based in the Mpumalanga Province;
- Vele Colliery, based in the Limpopo Province;
- Makhado Project, based in the Limpopo Province;
- Holfontein Project, based in the Mpumalanga Province (classified as held for sale);
- Pan Africa Drilling, a drilling company based in Madagascar;
- Coal of Madagascar, coal project located in Madagascar;
- Polokwane Coal Laboratory, located in the Limpopo Province;
- NiMag Group, manufacturing and distribution of nickel and magnesium alloys.

**REVIEW OF FINANCIAL POSITION****LIQUIDITY AND FUNDING**

The net assets of the Consolidated Entity increased from \$523 million in June 2009 to over \$620 million in June 2010. This was primarily due to increases in property, plant and equipment at year end of \$182.9 million (2009: \$99 million) and a \$26 million increase in development assets. During the year, the Group impaired investments where the facts and circumstances suggested that the carrying amount exceeded the recoverable amount.

## OPERATING PROFIT RECONSTRUCTION

	2010 \$	2009 \$
Profit/ (loss) after tax for the year	(101,441,293)	(14,519,976)
Tax	(12,350,743)	316,075
Interest paid 1,216,008	127,427	
Interest received	(2,776,708)	(12,650,896)
<b>EBIT/ (LBIT)</b>	<b>(115,352,736)</b>	<b>(26,730,370)</b>
<b>'Non-ordinary' items recognised</b>		
Options granted	1,995,871	273,728
Currency adjustment	(3,343,210)	(1,702,260)
Nickel revaluation	(225,979)	1,697,664
Depreciation & Amortisation	15,985,617	3,982,844
Impairment of investments	10,465,095	3,457,074
Impairment of assets available for sale	8,386,435	-
Impairment of Mooiplaats Colliery	52,779,745	-
Amortisation of mining assets	12,786,703	
Amortisation of logistics assets	2,208,375	-
Take or Pay Obligations	3,625,644	3,945,804
<b>'Operating' profit/ (loss)</b>	<b>(10,688,440)</b>	<b>(15,075,515)</b>

Included in the taxation movement for the year is income tax on profits from NiMag and the Woestalleen Colliery, a deferred tax asset movement of \$12 million attributable to differences between accounting treatment and revenue authority rates of depreciation on mining related assets in South Africa and the creation of a \$34 million deferred tax liability as a result of the acquisition of the Woestalleen Colliery. This deferred tax liability will be amortised over the expected remaining life of the asset.

The \$10 million decline in the interest revenue accounts for the significant reduction in passive revenue and is a direct result of reduced cash holdings during the year. Cash was utilised to fund the development of the Mooiplaats and Vele Collieries and the acquisition of the Woestalleen Colliery. Depreciation for the year increased significantly as the Mooiplaats Colliery commenced producing export quality thermal coal resulting in full depreciation charges during the year.

The impairment of investments included a charge of \$10.4 million which largely relates to fair value adjustments to listed and unlisted investments.

During the period, the Directors assessed the carrying value of the investment in the Holfontein Project resulting in an \$8,386,435 impairment to the project. The Mooiplaats Colliery was impaired by \$52.7 million also as a result of an independent assessment of the project. CoAL's investment in the Mooiplaats Colliery includes the investment cost price of \$128 million, fixed assets of \$97 million and other capital expenditure of \$57 million.

Logistics assets have been amortised over the remaining term of use and take or pay obligations are expected to be eradicated from 2010 as CoAL increased production from the Mooiplaats and Woestalleen Collieries.

The Group raised over \$200 million during the year via share placements. The funds raised were used to fund the acquisition of NuCoal, the development of the Vele and Mooiplaats Collieries, exploration and general working capital requirements.

## IMPACT OF LEGISLATION AND OTHER EXTERNAL REQUIREMENTS

During the period, there were no changes in environmental or other legislative requirements during the year that have significantly impacted the results or operations of the Consolidated Entity.

## Directors' Report (continued)

## FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

## STRATEGIC DIRECTION

CoAL is primarily focused on the acquisition, exploration, development and mining of thermal and coking coal projects. The Company currently has two operating thermal coal collieries as well as coking coal projects in various stages of exploration and development, as well as the NiMag Group, which manufactures nickel magnesium alloys.

The expansion of the Mooiplaats and Woestalleen Collieries, as well as the development of the Vele Colliery and the Makhado Project, is expected to ensure that CoAL will qualify as a significant coal producer, supplying thermal and metallurgical coal annually to South African and export customers.

The Company's coking coal projects located in the Limpopo Province – the Makhado Project and the Vele Colliery – yielded significant coal resources. Resource updates reflected coal resources on the Makhado Project of 947 million gross tonnes in situ and over 813 million gross tonnes in situ of coal at the Vele Colliery. Construction of the Company's coal analytical laboratory has resulted in accelerated analysis of coal samples, reducing one of the significant delays facing coal exploration and mining companies.

CoAL is currently utilising its 1 million tonnes per annum ("mtpa") export capacity at the Matola Terminal in Mozambique. The Company has exercised its option to participate in 100% of the Phase 3 expansion at the Matola Terminal and expects the additional 2mtpa of export capacity to be available by the end of 2010. The results of the feasibility study to increase the annual capacity at the Matola Terminal by a further 10mtpa is also expected by the end of 2010.

## CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the Consolidated Entity during the financial year were as follows:

## SHARES:

DATE	NUMBER OF SHARES ISSUED	PURPOSE	ISSUED SHARES
1 July 2009		Opening balance	411,919,636
1 October 2009	465,239	Exercise of Class E options at GBP0.65 per share	412,384,875
23 October 2009	1,990,000	Issue of shares to acquire 6% of the Vele Colliery	414,374,875
3 November 2009	59,867,731	Issue of shares to raise capital	474,242,606
13 November 2009	79,488	Exercise of Class E options at GBP0.65 per share	474,322,094
26 November 2009	91,817	Exercise of Class E options at GBP0.65 per share	474,413,911
19 January 2010	125,002	Exercise of Class A options at 50 cents per share	474,538,913
25 February 2010	350,000	Issue of shares in lieu of professional fees	474,888,913
25 February 2010	5,625,750	Issue of shares to acquire 20% of the Vele Colliery	480,514,663
17 June 2010	50,000,000	Issue of shares to raise capital	530,514,663

The proceeds of the shares issued were used to fund the acquisition of NuCoal and the development of the Vele and Mooiplaats Collieries, exploration and for general working capital requirements.

## OPTIONS ISSUED:

DATE	PURPOSE	ISSUED	EXPIRY DATE	EXERCISE PRICE
8 December 2009	Granted to Simon Farrell as Managing Director (now Executive Deputy Chairman) and Blair Sergeant as Finance Director as approved by shareholders on 30 November 2009	5,000,000	30 November 2014	\$2.74
25 February 2010	Granted to staff as part of staff incentive scheme approved by shareholders at the November 2009 Annual General Meeting	912,500	30 June 2014	\$1.90

## LIKELY DEVELOPMENTS

CoAL will continue to expand its coal interests in Southern Africa. It has established its first operating coal mine in South Africa, namely the Mooiplaats Colliery, acquired the Woestalleen thermal coal operations and processing plant and expects to commence mining at the Vele Colliery once all required regulatory approvals have been obtained. The Company intends lodging the Makhado Project NOMR application once the relevant approvals have been obtained for the transfer of the NOPR from Rio Tinto. The Company will also pursue potential investment opportunities in the mining and metal processing industries during the forthcoming year.

## EVENTS SUBSEQUENT TO BALANCE DATE

### PRE-COMPLIANCE NOTICES REGARDING THE VELE COLLIERY

During August, CoAL responded to a press article published by Reuters on 30 July 2010 regarding comments made by the South African Minister of Water and Environmental Affairs, Ms Buyelwa Sonjica, relating to its Vele Colliery.

On 2 August 2010, the Company stated that all activities undertaken at the Vele Colliery had been carried out in accordance with the NOMR granted for the Vele Colliery and the Company had not undertaken any activities for which authorisation had not been given. The NOMR, which was executed on 19 March 2010, together with the approved Environmental Management Plan in respect of the Vele Colliery, as well as the rights afforded the Company under the South African Mineral and Petroleum Resources Development Act ("MPRDA") permitted it to start development activities on site.

The Company acknowledged that on 7 April 2010, the South African Department of Environmental Affairs ("DEA") refused CoAL authorisation to build an access road on one of the CoAL-owned Vele farms, Erfrust 123 MS, adjoining the Vele Colliery mining right area and to construct above ground bulk fuel storage facilities. CoAL has appealed these decisions and clarified that it has not and will not start construction of this access road on Erfrust or storage facilities until the required approvals have been received. Although the proposed access road does not prevent the Vele Colliery from operating, it would considerably shorten the distance from the mine site to the main road.

CoAL sought these additional authorisations in accordance with the requirements of the South African National Environmental Management Act, Act No. 107 of 1998 ("NEMA"). The requirement to approve these additional activities are listed under NEMA, but not directly related to the authorised mining operations. The Company has been served with two pre-compliance notices ("Compliance Notice") from the DEA alleging various matters, including that the Vele Colliery has proceeded with the construction of the access road and storage facilities. As stated above, the Company has not undertaken any activities for which authority has not been granted.

The Company still awaits approval of its application for an Integrated Water Use Licence ("IWUL") for the Vele Colliery which was submitted to the South African Department of Water Affairs ("DWAF") on 10 November 2009. CoAL is liaising with the relevant authorities on an ongoing basis to enable the granting of the IWUL, which is required before the Company can commence any mining or processing activities at the Vele Colliery. However the IWUL is not required for the development activities which have been carried out to date.

On 1 September 2010 the Company disclosed that it had held several constructive meetings with the DEA, including the Director General. CoAL has adhered to the Compliance Notice issued by the DEA and is in the process of submitting rectification applications in terms of section 24G of NEMA to continue with the activities. The Company has also applied to the Minister for the suspension of the Compliance Notice during this process.

The Company has also applied to DWAF regarding the directive requesting the cessation of related specific activities pending the issue of the IWUL. As required in the directive, an Independent Environmental Assessment Practitioner has been appointed to assess the current and proposed activities in conjunction with the IWUL process with respect to the impact on the risks to the water source.

CoAL has made significant progress in satisfying the technical requirements raised by the Department and the Company is confident that with continued liaison between itself, the DEA and DWAF, the issues will be satisfactorily resolved. The timelines required to complete the processes have resulted in the Company having no choice but to reduce the workforce at the Vele Colliery by 596 people. The Company expects to re-commence production in late 2010.

### APPOINTMENT OF A SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

On 8 September 2010, the Company announced that it has appointed Mr David Murray as Senior Independent Non-Executive Director of the Company, effective immediately. Mr Murray has held a number of senior positions in the global coal industry, including Managing Director of Ingwe Coal Corporation (formerly Trans-Natal Coal Corporation Limited), Chief Executive of BHP Billiton Mitsubishi Alliance and President of Energy Coal Sector Group at BHP Billiton Limited, a position he held until December 2009.

Mr Murray holds a Bachelor of Science Degree (Civil Engineering) from the University of KwaZulu-Natal 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.

## Directors' Report (continued)

### APPROVAL RECEIVED FOR THE RIO TINTO FARM SWAP

As announced on 13 September 2010, CoAL received confirmation from the DMR that the application for Ministerial consent in terms of the MPRDA to effect the Rio Farm Swap Agreement with Kwezi Mining and Exploration (Proprietary) Limited ("Kwezi") and Chapudi Coal (Proprietary) Limited ("Chapudi"), joint venture companies held by the Rio Tinto Group and the Kwezi Group of South Africa had been granted by the DMR.

This rationalisation of the farms owned by Chapudi, Kwezi and CoAL provides significant benefits to all parties in terms of creating numerous contiguous, well defined and economic coal projects and allows CoAL to lodge a NOMR application for the Company's flagship Makhado Project. The NOMR application is expected to be lodged before the end of the calendar year, followed closely by an application for an IWUL and further relevant approvals, as required.

The Rio Farm Swap Agreement creates another three significant coal projects around the Makhado Project, namely the Mount Stuart coking coal project, the Voorburg coking coal project and the Jutland coking coal project, together with an additional two farms which will form a natural extension to Makhado.

#### Mount Stuart coking coal project

This project comprises the farms Mount Stuart, Ter Blanche, Septimus, Schuidrift, Riet, Stayt and Nakab and was subject to an intensive drilling program by Iscor in the early 1980's with some 318 boreholes drilled on the three farms, Mount Stuart, Ter Blanche and Septimus; and 13 boreholes on the remaining farms. The historical borehole information is currently undergoing a validation process with the information having been sourced from the South African Council for Geoscience. This compares to the 351 boreholes that were drilled by Iscor on the seven Makhado farms, including the two farm extension to the east.

The historical data indicates that there is a substantial area of open-castable coal with a general dip at less than 8° to the North, North-West and of a size and quality similar to that at Makhado. Interestingly, the yields of coking coal appear to be significantly higher than those at Makhado, thereby providing an exciting opportunity to create a meaningful addition to CoAL's coking coal portfolio. The Company intends on undertaking an extensive drilling program in order to validate the historical borehole information and in the process, generate a Australasian Joint Ore Reserves Committee ("JORC")/ South African Code for Reporting of Exploration Results, Mineral Resources and Mineral Reserves ("SAMREC") compliant resource.

#### Voorburg coking coal project

The project comprises the farms Voorburg, Cavan and Ancaster. The area has 44 historical boreholes drilled by Iscor in the early 1980's and was the subject of a detailed internal pre-feasibility study. CoAL is currently assessing this historical data and will provide to the market in due course, where material. CoAL has drilled 10 additional boreholes on the farm Voorburg to validate some of the older boreholes and to confirm the coal horizon correlations with success. The coal dips to the North, North-West at approximately 4°. The old Fuel Research Institute performed detailed work on the coal in 1942, on the old Lilliput mine shaft (established 1910) on the farm Cavan. The conclusions indicated that "The very strongly developed coking propensity is an outstanding characteristic of this coal". CoAL is having the 10 boreholes analysed with a view to providing a JORC/SAMREC compliant resource.

#### Jutland coking coal project

The project comprises the farms Jutland, Cohen, Stubbs and Mons. This area was drilled by Iscor in the early 1980's and was the subject of a detailed internal pre-feasibility study. Some 80 boreholes were drilled in the area and this historical borehole information is currently being sourced from the South African Council for Geoscience. The internal report studied different mining methods and targeted the middle lower and bottom upper coal seams. The coal dips to the North, North-West at 5° and suggested reasonable yields from the two seams and a potential life span of greater than 20 years. As with the Mount Stuart and Voorburg coking coal projects, CoAL intends to formulate a drilling program aimed at both validating the historical borehole information and defining a JORC/SAMREC compliant resource.

## OPTIONS

### OPTIONS GRANTED DURING THE YEAR

On 8 December 2009, 3,000,000 share options to acquire ordinary shares in CoAL were granted to Simon Farrell, the Company's Executive Deputy Chairman with an exercise price of \$2.74 each, expiring on 30 November 2014. 2,000,000 of the options vest one year after the granting of the NOMR for the Vele Colliery and the remaining 1,000,000 options vest one year after the granting of the Makhado Project NOMR.

Also on 8 December 2009, 2,000,000 share options to acquire ordinary shares in CoAL were granted to the Company's Finance Director, Blair Sergeant. The options have an exercise price of \$2.74 each and are exercisable prior to 30 November 2014. 500,000 of the options vested on closing of the NuCoal acquisition transaction, 1,000,000 of the options vest one year after the granting of the NOMR for the Vele Colliery and the remaining 500,000 options vest one year after the granting of the Makhado Project NOMR.

912,500 options were issued to eligible employees of CoAL as part of the shareholder approved Employee Share Option Plan. The options issued under this scheme have an exercise price of \$1.90 and are exercisable prior to 30 June 2014.

No options over unissued shares were granted between the end of the financial year and the date of this report.



## UNISSUED SHARES UNDER OPTION

The following options remain outstanding at the date of this report:

	NUMBER	EXERCISE PRICE	EXPIRY DATE
Class A Unlisted Options	9,074,998	A\$ 0.50	30 September 2011
Class B Unlisted Options	250,000	A\$ 2.05	1 May 2012
Class H Unlisted Options	600,000	A\$ 1.25	1 May 2012
Class I Unlisted Options	1,650,000	A\$ 3.25	31 July 2012
Class D Unlisted Options	7,000,000	A\$ 1.25	30 September 2012
Class G Unlisted Options	1,000,000	A\$ 1.90	30 September 2012
Class J Unlisted Options	5,000,000	A\$ 2.74	30 November 2014
Class K Unlisted Options	912,500	A\$ 1.90	30 June 2014

These options do not entitle the holder to participate in any share issue of any other body corporate.

761,546 shares were issued during the year as a result of parties exercising their options.

## BLACK EMPOWERMENT TRANSACTION

During the financial year, the Company reached agreement with its Broad Based Black Economic Empowerment ("BBBEE") partners ensuring CoAL takes a significant step towards compliance with South African Black Economic Empowerment ("BEE") legislation. The arrangement replaces the previous agreement with Coal Investments Limited ("CIL") pursuant to which CIL subscribed for shares and was granted an option to subscribe for 50 million CoAL shares.

The BBBEE consortium is led by Firefly Investments 163 (Pty) Limited ("Firefly") which is wholly owned and controlled by historically disadvantaged South Africans. Under the transaction, CoAL is to issue an option to Firefly to subscribe for a total of 50 million shares at 60 pence per share, exercisable between 1 November 2010 and 1 November 2014. Any shares issued on exercise of the option will be subject to a 12 month 'lock-in period'.

Firefly will undertake to, within a period of three months, distribute the rights under the agreement to subscribe for shares to the King of the VhaVenda, His Majesty Khosi Khulu Toni Mphophu Ramabulana, representing his constituents of the Mudimeli, Musekwa, Makushu-Musholombi and Tshivhula communities, relevant female empowerment and youth groups as well as a special purpose vehicle to promote and develop entrepreneurs and other specific community groups in the Limpopo province.

Firefly also has the right to nominate two persons to the CoAL Board. To facilitate the BBBEE transaction, the Company's second largest shareholder, African Global Capital I, L.P., an entity associated with Mvelaphanda Holdings (Pty) Limited, Palladino Holdings Limited and OZ Management LP, and its affiliate CIL, have entered into an agreement with Firefly in terms of which amongst other provisions, they will cede their voting rights over their ordinary shares in CoAL to Firefly for a period of time.

Shareholders approved the issue of up to 50,000,000 coal shares at a General Meeting held in April 2010. The BBBEE option had not been issued by reporting date and the Company has been advised that the transaction does not fall under AASB2: Share based payment, as no goods or services were rendered to the Company.

## LAPSE OF OPTIONS

No options lapsed during the financial year.

## ENVIRONMENTAL REGULATION

The Consolidated Entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation but are subject to numerous environmental regulations in South Africa, including the Atmospheric Pollution Prevention Act (No. 45 of 1965), Environment Conservation Act (No. 73 of 1989), National Water Act (No. 45 of 1965), National Environmental Management Act (No. 107 of 1998), the National Environmental Management Air Quality Act (No. 39 of 2004) and the environmental provisions in the Mineral and Petroleum Resources Development Act (No 28 of 2002). There is uncertainty regarding the interrelationship between these statutes in the mining context and as such complete compliance with all simultaneously is often difficult. The Board believes that the Consolidated Entity has adequate systems in place for the management of its environmental impacts but from time to time statutory non-compliances may occur. The Board takes these seriously and the Board has undertaken a thorough review of all its activities to bring them into compliance.

## Directors' Report (continued)

## DIRECTORS' INTERESTS

The relevant interest of each Director of the Company in shares and options of the Company at the date of this report is:

DIRECTOR	COAL OF AFRICA LIMITED		
	ORDINARY SHARES	LISTED OPTIONS	UNLISTED OPTIONS
Mr S Farrell <sup>(1)</sup>	3,222,791	-	12,000,000
Mr R Linnell <sup>(2)</sup>	801,550	-	4,000,000
Mr B Sergeant <sup>(3)</sup>	-	-	4,000,000
Mr P Cordin <sup>(4)</sup>	412,759	-	1,000,000
Mr S Bywater	-	-	-
Mr P Leonard (resigned 27 August 2009)	-	-	-
Prof A Nevhutanda <sup>(5)</sup>	55,000	-	-
Mr H Verster (appointed 27 August 2009, resigned 13 August 2010)	-	-	-
Mr J Wallington (appointed 15 June 2010)	-	-	-
Mr D Murray <sup>(6)</sup> (appointed 8 September 2010)	-	-	-

- 1,406,377 shares are held by Cherek Pty Ltd of which Mr Farrell is a director and shareholder. The 12,000,000 options and the balance of the shares are held by Mr Farrell directly.
- 751,550 shares held by Ord Group Pty Ltd <No 2 Account> as trustee for Terra Africa Investments Ltd of which Mr Linnell is a beneficiary. 2,000,000 options are held by Terra Africa Investments Pty Ltd, of which Mr Linnell is a Director and shareholder, and the remaining 2,000,000 options and the balance of shares are held by Mr Linnell directly.
- 2,000,000 options are held by various trustees for the Rio Grande Do Norte Superannuation Fund of which Mr Sergeant is a member and trustee. The remaining 2,000,000 options are held by Mr Sergeant directly.
- All shares and options are held by Cordin Pty Ltd, of which Mr Cordin is a Director.
- All shares are held by Professor Nevhutanda directly.
- Subject to shareholder approval at the Company's general meeting, scheduled for 14 October 2010, Mr Murray will be issued 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).

## REMUNERATION REPORT

The Board is responsible for establishing remuneration packages applicable to the Board members of the Company. The policy adopted by the Board is to ensure that remuneration properly reflects an individual's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest calibre.

Directors' remuneration packages are also assessed in the light of the condition of markets within which the Company operates, the Company's financial condition and the individual's contribution to the achievement of corporate objectives. Executive Directors are remunerated by way of a salary or consultancy fees, commensurate with their required level of services. Total remuneration for all Non-Executive Directors, as approved by shareholders at the June 2007 General Meeting, is not to exceed \$300,000 per annum.

The Board has nominated a Remuneration Committee which is made up as follows: Mr Steve Bywater (Chairman), Mr Richard Linnell and Mr Peter Cordin. The Company does not have any scheme relating to retirement benefits for Non-Executive Directors.

## REMUNERATION POLICY

The remuneration policy of CoAL has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The Board of CoAL believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the consolidated group, as well as create goal congruence between Directors, Executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the consolidated group is as follows:

- The remuneration structure is developed by the Remuneration Committee and approved by the Board after professional advice is periodically sought from independent external consultants.
- All key management personnel receive a base salary (based on factors such as length of service and experience), options and performance incentives.
- Incentives paid in the form of cash and options are intended to align the interests of the Executives, Directors and company with those of the shareholders.

The Remuneration Committee reviews key management personnel packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

The performance of key management personnel is measured against criteria agreed annually with each executive and bonuses and incentives are linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the Remuneration Committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

All remuneration paid to key management personnel is valued at the cost to the company and expensed.

The Board's policy is to remunerate Non-Executive Directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is not to exceed \$300,000.

Options granted under the arrangement do not carry dividend or voting rights. Options are valued using the Black-Scholes methodology.

## PERFORMANCE-BASED REMUNERATION

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved.

## RELATIONSHIP BETWEEN REMUNERATION POLICY AND COMPANY PERFORMANCE

The remuneration policy has been tailored to increase goal congruence between shareholders, Directors and Executives. Two methods have been applied to achieve this aim, the first being a performance-based bonus based on key performance indicators, and the second being the issue of options to the majority of Directors and Executives to encourage the alignment of personal and shareholder interests. The Company believes this policy was effective in increasing shareholder wealth over the past 4 years.

## Directors' Report (continued)

Details of the nature and amount of each major element of the remuneration of each Director and other key management personnel of the Company and the Consolidated Entity for the year are:

## REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

		SHORT TERM BENEFITS		POST-EMPLOYMENT BENEFITS	SHARE BASED PAYMENTS	
		SALARY, BONUS & FEES \$	NON-MONETARY BENEFITS \$	SUPERANNUATION BENEFITS \$	OPTIONS/ SHARES \$	TOTAL \$
<b>Non-Executive Directors</b>						
Mr R Linnell	2010	89,044	-	-	-	89,044
	2009	78,996	-	-	-	78,996
Mr P Cordin	2010	52,500	-	4,500	-	57,000
	2009	52,500	-	4,500	-	57,000
Mr S Bywater	2010	57,000	-	-	-	57,000
	2009	57,000	-	-	-	57,000
Mr P Leonard	2010	-	-	-	-	-
	2009	19,583	-	-	-	19,583
Mr H Verster	2010	42,339	-	-	-	42,339
<b>Executive Directors</b>						
Mr S Farrell	2010	800,000	-	-	487,417	1,287,417
	2009	650,000	-	-	-	650,000
Mr J Wallington	2010	31,115	-	-	-	31,115
Mr B Sergeant	2010	550,000	-	-	536,158	1,086,158
	2009	500,000	-	-	-	500,000
Prof A Nevhutanda	2010	193,879	-	-	-	193,879
	2009	149,512	-	-	165,000	314,512
<b>Total: All Directors</b>	2010	1,815,877	-	4,500	1,023,575	2,843,952
	2009	1,507,591	-	4,500	165,000	1,677,091
<b>Other Key Management Personnel</b>						
Mr R van Der Merwe	2010	436,877	-	-	412,629	849,506
	2009	490,750	-	-	273,728	764,478
Mr N Pretorius	2010	386,653	-	-	115,000	501,652
Mr W Hattingh	2010	140,719	-	-	193,200	333,919
<b>Total:</b>	2010	964,249	-	-	720,829	1,685,077
<b>All Named Key Management Personnel</b>	2009	490,750	-	-	273,728	764,478

## EMPLOYMENT CONTRACTS OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

The Company has entered into formal contractual employment agreements with the Executive Deputy Chairman, the Chief Executive Officer and the Finance Director only and not with any other member of the Board.

The employment conditions of the Executive Deputy Chairman, the Chief Executive Officer and Finance Director are:

1. Mr Farrell's agreement commenced on 1 July 2009 and is for a 3.5 year fixed term, at an annual remuneration of \$550,000 (exclusive of superannuation). The agreement may be terminated on 1 month written notice and in the event of termination by the Company, the remaining term of the agreement must be paid out.
2. Mr Wallington's agreement commenced on 31 May 2010 and is for a 3 year fixed term, at an annual remuneration of GBP400,000. Subject to shareholder approval and the satisfaction of certain capital performance conditions, Mr Wallington is also entitled to receive up to 250,000 shares following 12 months service, up to 500,000 shares following 24 months service and up to 500,000 shares following 36 months service. The agreement may be terminated on 3 month's written notice.
3. Mr Sergeant's agreement commenced on 1 January 2010 and is for a 2 year fixed term at an annual remuneration of \$375,000 (exclusive of superannuation). The agreement may be terminated on 1 month written notice and in the event of termination by the Company, the remaining term of the agreement must be paid out.

The employment conditions of the following specified executives have been formalised in employment contracts:

1. Mr Van der Merwe is employed by CoAL in the capacity of Chief Operations Officer. The permanent employment contract commenced on 1 August 2008 and may be terminated by written notice of one month.
2. Mr Pretorius is employed by CoAL in the capacity of Head: Engineering. The permanent employment contract commenced on 8 January 2009 and can be terminated by written notice of one month.
3. Mr Hattingh is employed by CoAL in the capacity of General Manager: Commercial. The permanent employment contract commenced on 1 January 2010 and can be terminated by written notice of one month.

## SHARE-BASED COMPENSATION - OPTIONS GRANTED TO DIRECTORS AND OFFICERS OF THE COMPANY

As noted above during the year under review, options were granted to the Executive Deputy Chairman and the Finance Director. Options were also granted to eligible members of staff who qualified to participate in the Employee Share Option Plan approved by shareholders at the November 2009 Annual General Meeting.

The names of all persons who currently hold options granted under the Employee Share Option Plan are entered into a register kept by the Company pursuant to Section 216C of the Corporations Act 2001 and the register may be inspected free of charge.

## DIRECTORS' INSURANCES

During the financial year, the Company paid \$21,050 for insurance premiums in respect of Directors' and Officers' Liability Insurance. The Company did not pay legal expense insurance contracts for current Directors and Secretaries of the Company and its controlled entities.

## NON-AUDIT SERVICES

During the year, the auditor of the Company's South African based subsidiaries (Moore Stephens MWM) performed certain services in addition to their statutory duties in relation to CoAL's South African operations. The Company's auditors appointment fulfils secretarial and audit functions only.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of these non-audit services is compatible with, and did not compromise the audit independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act is included with the Independent Audit Report.

**Directors' Report (continued)**

The following fees for non-audit services were paid/ payable to the external auditors during the year ended 30 June 2010:

	CONSOLIDATED 2010 \$	CONSOLIDATED 2009 \$
Taxation and secretarial services	31,600	850

**PARENT ENTITY FINANCIAL STATEMENTS**

On 28 June 2010, the *Corporations Amendments (Corporate Reporting Reform) Act 2010* came into legislation after receiving royal assent. The accompanying Corporations amendment Regulations 2010 (No. 6) were made on 29 June 2010. The Act has provided a degree of simplification for corporate reporting through the removal of the requirement to prepare parent entity financial statements. Some parent entity disclosures are still required by way of note, with a simplified parent statement of financial position being required as well as parent disclosures in relation to commitments amongst other parties. Refer to Note 32 for details.

**AUDITORS' INDEPENDENCE DECLARATION TO THE DIRECTORS**

Refer to page 95 of the Financial Report.

Signed on this 30th day of September 2010 in accordance with a resolution of the Directors.



**Simon Farrell**

*Executive Deputy Chairman*

## CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Coal of Africa Limited is responsible for the establishment of a corporate governance framework that has regard to the best practice recommendations set by the ASX Corporate Governance Council. CoAL's objective is to achieve best practice in corporate governance and the Company's Board, senior executives and employees are committed to achieving this objective.

This statement summarises the corporate governance practices that have been adopted by the Board. In addition to the information contained in this statement, the Company's website at [www.coalofafrica.com](http://www.coalofafrica.com) contains additional details of its corporate governance procedures and practices.

### ASX BEST PRACTICE RECOMMENDATIONS

The ASX Listing Rules require listed companies to include in their Annual Report a statement disclosing the extent to which they have complied with the ASX best practice recommendations in the reporting period. The recommendations are not prescriptive and if a company considers that a recommendation is inappropriate having regard to its particular circumstances, the company has the flexibility not to adopt it. Where the Company considered it was not appropriate to presently comply with a particular recommendation, the reasons are set out in the relevant section of this statement.

On 1 July 2008, the Board adopted a Corporate Governance policy that (except where expressly noted below) complies with the Principles in the Second Edition of the "Corporate Governance Principles and Recommendations", established by the ASX Corporate Governance Council and published by the ASX in August 2007.

### BOARD OF DIRECTORS

#### ROLE AND RESPONSIBILITIES OF THE BOARD

The role of the Board is to provide leadership for and supervision of the Company's senior management. The Board provides the strategic direction of the Company and regularly measures the progression by senior management of that strategic direction.

The key responsibilities of the Board include:

- (a) overseeing the Company, including its control and accountability systems;
- (b) appointing the chief executive officer, or equivalent, for a period and on terms as the Directors see fit and, where appropriate, removing the chief executive officer, or equivalent;
- (c) ratifying the appointment and, where appropriate, the removal of senior executives, including the chief financial officer and the company secretary;
- (d) ensuring the Company's Policy and Procedure for Selection and (Re)Appointment of Directors is reviewed in accordance with the Company's Nomination Committee Charter;
- (e) approving the Company's policies on risk oversight and management, internal compliance and control, Code of Conduct, and legal compliance;
- (f) satisfying itself that senior management has developed and implemented a sound system of risk management and internal control in relation to financial reporting risks and reviewed the effectiveness of the operation of that system;
- (g) assessing the effectiveness of senior management's implementation of systems for managing material business risk including the making of additional enquiries and to request assurances regarding the management of material business risk, as appropriate;
- (h) monitoring, reviewing and challenging senior management's performance and implementation of strategy;
- (i) ensuring appropriate resources are available to senior management;
- (j) approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- (k) monitoring the financial performance of the Company;
- (l) ensuring the integrity of the Company's financial (with the assistance of the Audit Committee, if applicable) and other reporting through approval and monitoring;
- (m) providing overall corporate governance of the Company, including conducting regular reviews of the balance of responsibilities within the Company to ensure division of functions remain appropriate to the needs of the Company;
- (n) appointing the external auditor (where applicable, based on recommendations of the Audit Committee) and the appointment of a new external auditor when any vacancy arises, provided that any appointment made by the Board must be ratified by shareholders at the next annual general meeting of the Company;
- (o) engaging with the Company's external auditors and Audit Committee (where there is a separate Audit Committee);
- (p) monitoring compliance with all of the Company's legal obligations, such as those obligations relating to the environment, native title, cultural heritage and occupational health and safety; and
- (q) make regular assessment of whether each non-executive Director is independent in accordance with the Company's Policy on Assessing the Independence of Directors.

## Corporate Governance Statement (continued)

In accordance with ASX Principle 1, the Board has established a Board Charter which sets out functions reserved to Board and those delegated to senior executives. This Charter is available on the Company's website. The Board has delegated responsibilities and authorities to management to enable management to conduct the Company's day to day activities. Matters which are not covered by these delegations, such as approvals which exceed certain limits, require Board approval.

### BOARD COMPOSITION

The Board is comprised of four executive Directors and four non-executive Directors.

The Company's website contains details on the procedures for the selection and appointment of new Directors and the re-election of incumbent Directors, together with the Board's policy for the nomination and appointment of Directors.

ASX Principle 2 recommends the Board establish a Nomination Committee to focus on the selection and appointment practices of the Company. It is further recommended that the Nomination Committee have a formal Charter.

The Company has a Nomination & Remuneration Committee which is comprised of three independent non-executive Directors and which undertakes the nomination functions for the Company. The Nomination & Remuneration Committee has adopted a formal Nomination Committee Charter, available on the Company's website, which includes information on the Company's approach to selection and appointment of Directors.

The composition of the Board is reviewed at least annually to ensure the balance of skills and experience is appropriate. The current Directors have a broad range of qualifications, experience and expertise in mining exploration and production and in the corporate and finance industries. The skills, experience and expertise of Directors are set out in the Directors' Report.

The names of the Directors in office at the date of this Report, the year they were first appointed, their status as non-executive, executive or independent Directors and whether they are retiring by rotation and seeking re-election by shareholders at the 2010 Annual General Meeting, are set out in the Directors' Report.

### INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

The Board considers an independent Director to be a non-executive Director who meets the criteria for independence set out in Principle 2 of the ASX Corporate Governance Principles and Recommendations. In determining a Director's independence, the Board considers the relationships that may affect independence, as set out in Box 2.1 of the Principles.

Materiality for these purposes is based on quantitative and qualitative thresholds, set out in the Board Charter available from the Company's website. In summary, the Board has agreed on the following guidelines for assessing the materiality of matters:

#### MATERIALITY – QUANTITATIVE

##### Balance sheet items

Balance sheet items are material if they have a value of more than 10% of pro-forma net asset.

##### Profit and loss items

Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.

#### MATERIALITY – QUALITATIVE

Items are also material if:

- (a) they impact on the reputation of the Company;
- (b) they involve a breach of legislation;
- (c) they are outside the ordinary course of business;
- (d) they could affect the Company's rights to its assets;
- (e) if accumulated they would trigger the quantitative tests;
- (f) they involve a contingent liability that would have a probable effect of 10% or more on balance sheet or profit and loss items; or
- (g) they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.



## MATERIAL CONTRACTS

Contracts will be considered material if:

- (a) they are outside the ordinary course of business;
- (b) they contain exceptionally onerous provisions in the opinion of the Board;
- (c) they impact on income or distribution in excess of the quantitative tests;
- (d) there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests;
- (e) they are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests;
- (f) they contain or trigger change of control provisions;
- (g) they are between or for the benefit of related parties; or
- (h) they otherwise trigger the quantitative tests.

The Board has reviewed and considered the positions and associations of each of the Directors in office at the date of this report and consider that a majority of the Directors are independent, namely Mr Richard Linnell, Mr Peter Cordin, Mr Steve Bywater and Mr David Murray.

The Company notes for the purposes of Principle 2, that while Mr Linnell was engaged in an executive capacity until 2007, he is no longer involved in the day to day running of the Company, has no material or business relationship with the Company and no conflicts of interest which could interfere with the exercise of independent judgement and he is therefore considered independent.

## INDEPENDENT PROFESSIONAL ADVICE

The Board has adopted a formal policy on access to independent professional advice which provides that Directors are entitled to seek independent professional advice for the purposes of the proper performance of their duties. The advice is at the Company's expense and advice so obtained is to be made available to all Directors.

## MEETINGS

The Board held 10 scheduled meetings during the reporting year and no unscheduled meetings were held during that year. Senior management attended and made presentations at the Board Meetings as considered appropriate and were available for questioning by Directors.

The attendance of Directors at Board meetings during the year ended 30 June 2010 is detailed in the Directors' Report.

## EVALUATION OF BOARD AND SENIOR EXECUTIVE PERFORMANCE

A process has been established to review and evaluate the performance of the Board, individual Directors and senior executives. The Board is required to meet annually with the specific purpose of reviewing the role of the Board, assessing the performance of the Board and individual Directors over the previous 12 months and examining ways in which the Board can better perform its duties. The Company's annual Board review to consider the 2010 financial year is scheduled to take place within 3 months of the end of the financial year.

The Executive Deputy Chairman is responsible for assessing the performance of the key executives within the Company. This is performed through a formal process involving a formal meeting with each senior executive.

## REMUNERATION

ASX Principle 8 recommends the Board establish a Remuneration Committee to focus on appropriate remuneration policies. It is further recommended that the Remuneration Committee have a formal Charter.

The Company has a Nomination and Remuneration Committee which is comprised of 3 independent non-executive Directors and which undertakes the remuneration functions for the Company. The Nomination & Remuneration Committee has adopted a formal Remuneration Committee Charter, available on the Company's website, which includes information on the Company's approach to remuneration of Directors (executive and non-executive) and senior executives.

In accordance with Principle 8, executive Directors and key executives are remunerated by way of a salary or consultancy fees, commensurate with their required level of services. Non-executive Directors receive a fixed monthly fee for their services. Non-executive Directors' fees are currently capped at \$300,000 per annum.

The Company does not have any scheme relating to retirement benefits for non-executive Directors.

See the Remuneration Report for details of remuneration paid to Directors and key executives during the year.

## Corporate Governance Statement (continued)

**RISK MANAGEMENT**

In accordance with ASX Principle 7, the Company has a policy for the oversight and management of material business risks, which is available on the Company's website.

The Board is responsible for approving the Company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Implementation of the risk management system and day-to-day management of risk is the responsibility of the Executive Deputy Chairman, with the assistance of senior management, as required.

The Managing Director has responsibility for identifying, assessing, monitoring and managing risks. The Executive Deputy Chairman is also responsible for identifying any material changes to the Company's risk profile and ensuring, with approval of the Board, the risk profile of the Company is updated to reflect any material change.

The Executive Deputy Chairman is required to report on the progress of, and on all matters associated with, risk management on a regular basis, and at least annually. During the reporting period, the Executive Deputy Chairman regularly reported to the Board as to the effectiveness of the Company's management of its material business risks.

Further, in accordance with Principle 7, the Executive Deputy Chairman and Finance Director have confirmed in writing to the Board that:

- (a) the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results are in accordance with relevant accounting standards;
- (b) the above confirmation is founded on a sound system of risk management and internal compliance and control which implements the policies of the Board; and
- (c) the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

**FINANCIAL REPORTING**

ASX Principle 4 recommends the Board establish an Audit Committee to focus on issues relevant to the integrity of the Company's financial reporting. It is further recommended the Audit Committee have a formal Charter.

The Company has established an Audit Committee which is comprised of three independent non-executive Directors.

The role of the Audit Committee is to:

- (a) monitor and review the integrity of the financial reporting of the Company, reviewing significant financial reporting judgments;
- (b) review the Company's internal financial control system and, unless expressly addressed by a separate risk committee or by the Board itself, risk management systems;
- (c) monitor, review and oversee the external audit function including matters concerning appointment and remuneration, independence and non-audit services;
- (d) monitor and review compliance with the Company's Code of Conduct; and
- (e) perform such other functions as assigned by law, the Company's Constitution, or the Board.

The Audit Committee has adopted a formal Audit Committee Charter, available from the Company's website, which promotes an environment consistent with best practice financial reporting.

**CODE OF CONDUCT**

The Board encourages appropriate standards of conduct and behaviour from Directors, officers, employees and contractors of the Company.

The Board has adopted a Code of Conduct in relation to Directors and employees, available from the Company's website. This Code of Conduct is regularly reviewed and updated as necessary to ensure that it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Company's integrity.

A fundamental theme is that all business affairs are conducted legally, ethically and with strict observance of the highest standards of integrity and propriety.

## SECURITIES TRADING

The Board has adopted a Securities Trading Policy which regulates dealings by Directors, officers and employees in securities issued by the Company.

Under the policy, which is available on the Company's website, Directors, officers and employees of the Company must not, whether in their own capacity or as an agent for another, subscribe for, purchase or sell, or enter into an agreement to subscribe for, purchase or sell, any securities (ie. shares or options) in the Company, or procure another person to do so:

- (a) if that Director, officer or employee possesses information that a reasonable person would expect to have a material effect on the price or value of the securities if the information was generally available;
- (b) if the Director, officer or employee knows or ought reasonably to know, that:
  - the information is not generally available; and
  - if it were generally available, it might have a material effect on the price or value of the securities in the Company; and
- (c) without the written acknowledgement of the Chairman.

Further, Directors, officers and employees must not either directly or indirectly pass on this kind of information to another person if they know, or ought reasonably to know, that this other person is likely to deal in the securities of the Company or procure another person to do so.

Directors, officers and employees must not enter into transactions or arrangements which operate to limit the economic risk of their security holding in the Company without first seeking and obtaining written acknowledgement from the Chairman.

Executives are also prohibited from entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements.

## PRIVACY

The Company has resolved to comply with the National Privacy Principles contained in the Privacy Act 1988, to the extent required for a company the size and nature of CoAL.

## CONTINUOUS DISCLOSURE

In accordance with ASX Principle 5, the Board has an established Continuous Disclosure Policy which is available from the Company's website.

The Company promotes timely and balanced disclosure of all material matters concerning the Company and recognises that all investors should have equal and timely access to material information. The Company has adopted certain procedures to ensure that it complies with its continuous disclosure obligations and has appointed a Responsible Officer who is responsible for ensuring the procedures are complied with.

## SHAREHOLDER COMMUNICATION

In accordance with ASX Principle 6, the Board has established a communications strategy which is available from the Company's website.

The Board aims to ensure that the shareholders are informed of all major developments affecting the Company. All shareholders receive the Company's annual report, and may also request copies of the Company's half-yearly and quarterly reports.

The Company maintains a website at [www.coalofafrica.com](http://www.coalofafrica.com) and makes comprehensive information available on a regular and up to date basis. The Company provides shareholder materials directly to shareholders through electronic means. A shareholder may request a hard copy of the Company's annual report to be posted to them.

Shareholders are encouraged at annual general meetings to ask questions of Directors and senior management and also the Company's external auditors, who are requested to attend the Company's annual general meetings.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	CONSOLIDATED ENTITY	
		2010 \$	2009 \$
<b>REVENUE</b>	2	113,785,521	35,764,074
Raw materials and consumables used		(80,319,253)	(20,767,481)
Consulting expenses		(4,687,587)	(2,077,698)
Employee expenses		(11,683,755)	(8,015,315)
Borrowing costs	3	(1,216,008)	(127,427)
Depreciation & Amortisation expenses	3	(15,985,617)	(3,982,844)
Diminution in value of asset held for sale		(8,386,435)	-
Exploration expense		(393,668)	-
Office rental, outgoings and parking		(1,142,067)	(1,313,820)
Amortisation of mining assets		(12,786,703)	-
Diminution in value of investments		(10,465,095)	(2,332,074)
Carrying value of fixed assets disposed of		(160,540)	-
Amortisation of logistics assets		(2,208,375)	-
Loss on investments disposed of		-	(68,385)
Bad debt expense		-	(11,181)
Provision for non-recoverability of loans/ debtors		(2,311,431)	(392,078)
Impairment of goodwill		-	(1,125,000)
Impairment in value of Mooiplaats Colliery		(52,779,745)	-
Foreign exchange profit/(loss)	3	3,343,210	1,702,260
Other expenses from ordinary activities		(22,768,844)	(7,511,128)
Take or Pay obligations		(3,625,644)	(3,945,804)
<b>Profit/(Loss) before income tax (expense)/benefit</b>	3	(113,792,036)	(14,203,901)
Income tax (expense) / benefit	4	12,350,743	(316,075)
<b>Profit/(Loss) after tax</b>		(101,441,293)	(14,519,976)
Outside equity interest	22	-	-
<b>Net profit/(loss) attributable to members of the parent entity</b>		(101,441,293)	(14,519,976)
<b>Other comprehensive income</b>			
Foreign currency translation differences		(3,051,649)	3,566,699
<b>Total comprehensive income/ (loss) for the period</b>		(104,492,942)	(10,953,277)
Basic earnings/(loss) per share (in cents)	5	(22.21)	(3.55)

The Consolidated Entity's potential ordinary shares were not considered dilutive as the Entity is in a loss position.

*The accompanying notes form part of these financial statements*

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	NOTE	CONSOLIDATED ENTITY	
		2010 \$	2009 \$
<b>CURRENT ASSETS</b>			
Cash assets	29(a)	101,062,757	87,032,875
Receivables	7	31,812,006	21,525,145
Inventory	9	28,874,316	8,614,773
Other current assets		396,602	4,423,964
<b>TOTAL CURRENT ASSETS</b>		<b>162,145,681</b>	<b>121,596,757</b>
<b>NON CURRENT ASSETS</b>			
Deferred tax assets	4	12,208,693	53,526
Assets held for sale	8	17,428,303	25,540,957
Other financial assets	10	21,373,986	23,598,640
Property, plant and equipment	11	182,928,437	98,894,360
Development Expenditure	12	45,557,064	19,432,007
Intangibles	13	3,540,213	3,706,781
Mining assets	14	266,316,598	186,120,103
Exploration expenditure	14	29,374,946	15,540,310
Logistics assets	15	37,897,472	43,184,441
<b>TOTAL NON CURRENT ASSETS</b>		<b>616,625,712</b>	<b>416,071,125</b>
<b>TOTAL ASSETS</b>		<b>778,771,393</b>	<b>537,667,882</b>
<b>CURRENT LIABILITIES</b>			
Payables	16	80,726,868	11,031,549
Interest bearing liabilities	17	24,352,867	-
Provisions	18	1,023,228	262,081
Current tax liability		375,029	350,416
<b>TOTAL CURRENT LIABILITIES</b>		<b>106,477,992</b>	<b>11,644,046</b>
<b>NON CURRENT LIABILITIES</b>			
Interest bearing liabilities	17	1,758,055	-
Provisions	18	10,790,064	2,383,801
Deferred tax liability	4	33,327,021	-
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>45,875,140</b>	<b>2,383,801</b>
<b>TOTAL LIABILITIES</b>		<b>152,353,132</b>	<b>14,027,847</b>
<b>NET ASSETS</b>		<b>626,418,261</b>	<b>523,640,035</b>
<b>EQUITY</b>			
Contributed equity	19	778,046,671	569,267,119
Reserves	20	5,015,579	7,189,525
Accumulated losses	21	(161,897,536)	(60,456,243)
<b>TOTAL PARENT EQUITY INTEREST</b>		<b>621,164,714</b>	<b>516,000,401</b>
<b>NON-CONTROLLING INTEREST</b>	22	5,253,547	7,639,634
<b>TOTAL EQUITY</b>		<b>626,418,261</b>	<b>523,640,035</b>

The accompanying notes form part of these financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	CONSOLIDATED ENTITY	
		2010 \$	2009 \$
<b>Cash flows from operating activities</b>			
Interest received		2,776,708	13,653,573
Dividends received		104,310	-
Cash receipts in the course of operations		92,092,303	20,400,464
Interest paid		(1,216,008)	(127,427)
Payments to suppliers and employees		(89,042,371)	(44,717,527)
<b>Net cash generated by /(used in) operating activities</b>	29(b)	<u>4,714,942</u>	<u>(10,790,917)</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(81,479,312)	(83,262,594)
Proceeds from the sale of property, plant and equipment		601,284	434,979
Payments for Development Assets		(28,963,028)	(9,173,789)
Payments for Surface Rights		-	(16,487,811)
Mineral assets acquired		(8,206,691)	(7,743,534)
Payment for NuCoal		(71,356,524)	-
Cash acquired on purchase of NuCoal		3,897,649	-
Sundry deposits refunded/ (paid)		3,991,804	(4,423,964)
Payments for equity investments		(1,498,685)	(11,704,052)
Repayments/ (Payments) made for logistics assets		3,078,594	(43,184,441)
Loans (made to)/from other entities		-	(6,214,809)
Exploration costs		(13,834,635)	(7,594,698)
<b>Net cash generated by / (used in) investing activities</b>		<u>(193,769,544)</u>	<u>(189,354,713)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		202,760,338	37,469,162
Transaction costs from issue of shares		(12,521,544)	(3,466,112)
Other loans repaid		(9,262,554)	(187,626)
Loans received from other entities		21,769,875	-
<b>Net cash generated by financing activities</b>		<u>202,746,115</u>	<u>33,815,424</u>
<b>Net increase/(decrease) in cash held</b>		13,691,514	(166,330,206)
Effect of exchange rates of cash holdings in foreign currencies		338,368	1,358,222
<b>Cash at beginning of financial year</b>		<u>87,032,875</u>	<u>252,004,859</u>
<b>Cash at end of financial year</b>	29(a)	<u>101,062,757</u>	<u>87,032,875</u>

The accompanying notes form part of these financial statements

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS AT 30 JUNE 2010

	ORDINARY SHARE CAPITAL \$	CAPITAL PROFITS RESERVE \$	FOREIGN CURRENCY TRANSLATION RESERVE \$	SHARE OPTIONS RESERVE \$	ACCUMULATED LOSSES \$	TOTAL \$	NON-CONTROLLING INTERESTS \$
<b>Consolidated Entity</b>							
<b>Balance at 30 June 2009</b>	569,267,119	136,445	(1,823,690)	8,876,771	(60,456,243)	516,000,401	7,639,634
Shares issued during the year	219,339,427	-	-	-	-	219,339,427	-
Capital raising costs incurred	(12,521,544)	-	-	-	-	(12,521,544)	-
Adjustments from translation of foreign controlled entities	-	-	(3,051,649)	-	-	(3,051,649)	-
Transfer from Option Reserve	1,118,169	-	-	(1,118,169)	-	-	-
Options issued during the year	-	-	-	1,995,871	-	1,995,871	-
Share based payments	843,500	-	-	-	-	843,500	-
Minority Interests in Investments	-	-	-	-	-	-	(2,386,087)
Loss attributable to members of parent entity	-	-	-	-	(101,441,293)	(101,441,293)	-
<b>Balance at 30 June 2010</b>	<b>778,046,671</b>	<b>136,445</b>	<b>(4,875,339)</b>	<b>9,754,473</b>	<b>(161,897,536)</b>	<b>621,164,714</b>	<b>5,253,547</b>

<b>Consolidated Entity</b>							
<b>Balance at 1 July 2008</b>	533,053,006	136,445	(5,390,389)	9,524,104	(45,936,267)	491,386,898	3,071,251
Shares issued during the year	37,469,164	-	-	-	-	37,469,164	-
Capital raising costs incurred	(3,466,112)	-	-	-	-	(3,466,112)	-
Adjustments from translation of foreign controlled entities	-	-	3,566,699	-	-	3,566,699	-
Transfer from Option Reserve	921,061	-	-	(921,061)	-	-	-
Options issued during the year	-	-	-	273,728	-	273,728	-
Share based payments	1,290,000	-	-	-	-	1,290,000	-
Minority Interests in Investments	-	-	-	-	-	-	4,568,383
Loss attributable to members of parent entity	-	-	-	-	(14,519,976)	(14,519,976)	-
<b>Balance at 30 June 2009</b>	<b>569,267,119</b>	<b>136,445</b>	<b>(1,823,690)</b>	<b>8,876,771</b>	<b>(60,456,243)</b>	<b>516,000,401</b>	<b>7,639,634</b>

The accompanying notes form part of these financial statements

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity of Coal of Africa Limited and controlled entities. Coal of Africa Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Coal of Africa Limited and controlled entities comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

#### BASIS OF PREPARATION

##### Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

#### (a) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Coal of Africa Limited at the end of the reporting period. A controlled entity is any entity over which Coal of Africa Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 28 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the Equity section of the consolidated Statement of Financial Position and Statement of Comprehensive Income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

##### Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (ie parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill (refer to Note 1(r)) or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is re-measured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.



All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

## **(b) REVENUE RECOGNITION**

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax ("GST"). Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

### **Sale of goods**

Revenue from the sale of coal is recognised when control of the goods passes to the customer. For local sales, this can be when the coal is loaded on a truck, train or delivered to Eskom. For export sales, revenue is recognised when control of the goods passes to customers which usually occurs when the goods have been loaded onto the ship at port.

Revenue from the sale of nickel magnesium alloys (NiMag), ferro-nickel magnesium alloys (FeNiMag), ferro-silicon magnesium alloys (FeSiMag) and other master alloys are recognised when control of the goods passes to the customer. For local sales this is usually when the customer receives the goods. For export sales it is determined based on individual sales agreements, however, control usually passes when the goods are received by the shipping agent and the bill of lading is sighted by the customer.

### **Interest Revenue**

Interest revenue is recognised as it accrues, taking into account the effective yield of the financial asset.

### **Sale of non-current assets**

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

## **(c) MINING TENEMENTS AND MINERAL EXPLORATION AND EVALUATION EXPENDITURE**

Mining tenements are carried at cost, less accumulated impairment losses.

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated exploration, evaluation and development costs for the relevant area of interest are capitalised and amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

## **(d) REHABILITATION**

The mining, extraction and processing activities of CoAL give rise to obligations for site rehabilitation. Rehabilitation obligations can include facility decommissioning and dismantling; removal and treatment of waste materials, land rehabilitation and site restoration. The extent of work required and the associated costs are estimated based on feasibility and engineering studies and using current restoration standards and techniques. Provisions for the cost of each rehabilitation programme are recognised at the time that environmental disturbance occurs.

Rehabilitation provisions are initially measured at the expected value of future cash flows required to rehabilitate the relevant site, discounted to their present value. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognised in financial expenses. When provisions for rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of rehabilitation activities is recognised in 'Development Expenditure' as rehabilitation assets and amortised accordingly.

Where rehabilitation is expected to be conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the present obligation or estimated outstanding continuous rehabilitation work at each balance sheet date and the costs charged to the income statement in line with future cash flows.

At each reporting date the rehabilitation liability is re-measured to account for any new disturbance, updated cost estimates, changes to the estimated lives of operations, new regulatory requirements and revisions to discount rates. Changes to the rehabilitation liability are added to or deducted from the related rehabilitation asset and amortised accordingly.

## **(e) GOODS AND SERVICES TAX**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

## Notes to and forming part of the Financial Statements (continued)

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(f) ACQUISITION OF ASSETS**

All assets acquired including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of the acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of the acquisition is used as fair value except where the notional price at which they could be placed in the market is a better indication of fair value.

**(g) PROPERTY, PLANT & EQUIPMENT**

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

**Property**

Freehold land and buildings are shown at cost. The carrying amount of freehold land and buildings are reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets.

**Plant and Equipment**

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings and property plant and equipment are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

**(h) DEVELOPMENT ASSETS**

Once a mining project has been established as commercially viable and technically feasible, expenditure other than that on land, buildings and plant and equipment is capitalised under development expenditure. These costs include past exploration and evaluation costs, pre-production development costs, development excavation, development studies and other sub-surface expenditure pertaining to that area of interest. Costs related to surface plant and equipment and any associated buildings are accounted for as property, plant and equipment.

Development costs are accumulated in respect of each separate area of interest. Costs associated with commissioning new assets in the period before they are capable of operating in the manner intended by management, are capitalised. Development costs incurred after the commencement of production are capitalised to the extent they are expected to give rise to future economic benefits.

When an area of interest is abandoned or the Directors decide that it is not commercially or technically feasible, any accumulated costs in respect of that area is written-off in the financial period the decision is made. Each area of interest is reviewed at the end of each accounting period and accumulated costs written-off to the extent that they will not be recoverable in the future.

Amortisation of carried forward exploration and development costs is charged on a unit of production basis over the life of the economically recoverable reserves.

Development Assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, development assets are allocated to cash generating units to which the development activity relates. The cash generating unit shall not be larger than the area of interest.

**(i) DEPRECIATION AND AMORTISATION**

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is calculated using the straight line, reducing balance or units of production methods over their estimated useful lives to the economic entity commencing from the time the asset is held ready for use.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The straight line depreciation and amortisation rates used for each class of assets are as follows:

	Range – 2010	Range – 2009
■ Furniture, fittings and office equipment	13% - 50%	13% - 50%
■ Motor vehicles	20% - 33%	20% - 33%
■ Plant & equipment	20%	20%
■ Leasehold Improvements	25%	25%
■ Buildings	20%	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Where the useful life of an asset is directly linked to the extraction and production of saleable coal, these assets are depreciated using the units of production method. Depreciation is normally calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proved and probable resources.

**(j) LOGISTICS ASSETS**

Where the Company has acquired an option or a right to use an asset belonging to a third party, the costs of acquiring the option or right is capitalised to the extent that it will be used in the future. Once the Company commences utilising the logistics assets to the extent agreed with the rights holder or owner, the capitalised logistics costs are amortised over the expected period of use. The Directors will assess the capitalised logistics costs for impairment over their expected future useful life and impair the cost where the future use of the option or right has decreased.

**(k) IMPAIRMENT OF ASSETS**

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed in the income statement.

Impairment testing is performed annually on goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**(l) INCOME TAX**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity. Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.



## Notes to and forming part of the Financial Statements (continued)

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(l) INCOME TAX (continued)**

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised. Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

During the 2002/03 financial year, legislation was enacted to allow groups, comprising of a parent entity and its Australian resident wholly owned entities, to elect to consolidate and be treated as a single entity for income tax purposes. The legislation, which includes both elective and mandatory elements, is applicable to the Consolidated Entity. As at 30 June 2010, the Directors of the Company have not made a decision to elect to be taxed as a single entity. The financial effect of the legislation has not been brought to account in the financial statements for the year 30 June 2010.

**(m) LEASES**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset (but not the legal ownership) are transferred to entities in the economic entity, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

**(n) RECEIVABLES**

Amounts receivable from third parties are carried at amounts due. The recoverability of the debts is assessed at balance date and specific provision is made for any doubtful accounts.

**(o) FOREIGN CURRENCY TRANSACTIONS AND BALANCES****Functional and presentation currency**

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

**Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

**Group companies**

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

1. Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
2. Income and expenses are translated at average exchange rates for the period; and
3. Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

**(p) INVENTORIES**

Inventories are measured at the lower of cost and net realisable value.

The cost of mining inventory is determined primarily on the basis of weighted average costs. Costs of raw materials and stores is purchase price and for partly processed and saleable products is cost derived on an absorption costing basis. For this purpose, the costs of production include:

- labour costs, materials and contractor expenses which are directly attributable to the extraction and processing of coal;
- the amortisation of development expenditure and depreciation of property, plant and equipment used in the extraction and processing of coal; and
- production overheads, including attributable mining and manufacturing overheads.

Stockpiles represent coal that has been extracted and processed or is available for further processing. Quantities are assessed primarily through surveys and assays.

The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

**(q) FINANCIAL INSTRUMENTS****Recognition and initial measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

**Classification and subsequent measurement**

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

***Amortised cost is calculated as:***

- a. the amount at which the financial asset or financial liability is measured at initial recognition;
- b. less principal repayments;
- c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- d. less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability.

Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

## Notes to and forming part of the Financial Statements (continued)

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

## (q) FINANCIAL INSTRUMENTS (continued)

## Classification and subsequent measurement (continued)

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

i. *Financial assets at fair value through profit or loss*

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

ii. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

iii. *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets.)

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

iv. *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other financial assets are classified as current assets.)

v. *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

## Derivative instruments

Coal of Africa Limited designates certain derivatives as either:

- i. hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- ii. hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the Group's risk management objective and strategy for undertaking various hedge transactions is documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also documented.

*(i) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of hedged assets or liabilities that are attributable to the hedged risk.

*(ii) Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

Amounts accumulated in the hedge reserve in equity are transferred to the statement of comprehensive income in the periods when the hedged item will affect profit or loss.

**Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**Impairment**

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

**Financial guarantees**

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

**De-recognition**

Financial assets are de-recognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are de-recognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**(r) GOODWILL**

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- (i) the consideration transferred;
- (ii) any non-controlling interest; and
- (iii) the acquisition date fair value of any previously held equity interest, over the acquisition date fair value of net identifiable assets acquired.

The value of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the aforementioned non-controlling interest. The Group can elect to measure the non-controlling interest in the acquiree either at fair value (*full goodwill method*) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (*proportionate interest method*). The Group determines which method to adopt for each acquisition.

Under the full goodwill method, the fair values of the non-controlling interests are determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.



## Notes to and forming part of the Financial Statements (continued)

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(r) GOODWILL (continued)**

Goodwill is tested for impairment annually and is allocated to the Group's cash generating units or groups of cash generating units, which represent the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

**(s) ACCOUNTS PAYABLE**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or Consolidated Entity. Trade accounts payable are normally settled within 30 - 45 days.

**(t) INVESTMENTS IN ASSOCIATES**

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognises the Group's share of post-acquisition reserves of its associates.

**(u) EMPLOYEE BENEFITS**

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance sheet date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

**Equity-settled compensation**

Share-based compensation benefits are provided to employees via an Executive Share Option Scheme.

*Share options granted before 7 November 2002 and/or vested before 1 July 2006*

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

*Share options granted after 7 November 2002 and/or vested after 1 July 2006*

The fair value of options under the Executive Share Option Scheme is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Binomial option valuation model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

**(v) PROVISIONS**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

**(w) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of twelve months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

**(x) BORROWING COSTS**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

**(y) EARNINGS PER SHARE**

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

**(z) COMPARATIVE FIGURES**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

**(aa) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

The resulting accounting estimates and judgements may differ from the related actual results and may have a significant effect on the carrying amounts of assets and liabilities within the next financial year and on the amounts recognised in the financial statements. Information on such estimates and judgements are contained in the accounting policies and/or notes to the financial statements.

Key accounting estimates include:

- Asset carrying values and impairment charges;
- Capitalisation and impairment of exploration and evaluation expenditure;
- Critical judgements in applying the entity's accounting policies; and
- The effectiveness of forward foreign exchange contracts (Note 1(q)).

The Group has identified the following critical accounting policies under which significant judgments and estimates are made. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

**Impairment**

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

**Coal reserves**

Economically recoverable coal reserves relate to the estimated quantity of coal in an area of interest that can be expected to be profitably extracted, processed and sold from the Group's current mining assets/tenements. At 30 June 2010, the economically recoverable coal reserves of the Group's mining assets are:

**CoAL RESOURCE SUMMARY<sup>(1)</sup>**

Project	Measured Resource	Indicated Resource	Inferred Resource	Gross tonnes in situ
Vele	171.4	452.9	189.1	813.5
Mooiplaats	74.2	2.5	7.9	84.5
Makhado	284.4	27	-	947.0 <sup>(2)</sup>
Zonnebloem	11.7	-	-	11.8
Hartogshoop	1.2	-	-	1.2
Klipbank	-	7.6	-	7.6
Opgooienhoop	10.4	17.0	-	27.4
<b>Total</b>	<b>553.3</b>	<b>507.0</b>	<b>195.0</b>	<b>1,893.0</b>

(1) All figures shown are in millions of tonnes, rounded to one decimal place.

(2) Based on the report compiled by The Mineral Corporation on 14 June 2010. Measured and Indicated gross in situ resources were estimated only for the proposed opencast area to a maximum depth of 140 metres. The total gross in situ resource estimate of 947Mt relates to the entire project area with no depth cut-offs applied.

The Group determines and reports coal reserves under the Australasian Code of Reporting of Mineral Resources and Ore Reserves (the JORC Code). This includes estimates and assumptions in relation to geological, technical and economic factors, including: quantities, grades, production techniques, recovery rates, production costs, transport costs, exchange rates and expected coal demand and prices.

## Notes to and forming part of the Financial Statements (continued)

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(aa) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Coal reserves (continued)**

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charges in the Statement of Comprehensive Income may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change

**Exploration and evaluation assets**

Determining the recoverability of exploration and evaluation expenditure capitalised in accordance with the Group's accounting policy (refer Note 1(c)), requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively sale, of the respective areas of interest will be achieved. The Group applies the principles of AASB 6 and recognises exploration and evaluation assets when the rights of tenure of the area of interest are current, and the exploration and evaluation expenditures incurred are expected to be recouped through successful development and exploitation of the area. If, after having capitalised the expenditure under the Group's accounting policy in Note 1(c), a judgment is made that recovery of the carrying amount is unlikely, an impairment loss is recorded in profit or loss in accordance with the Group's accounting policy in Note 1(k). The carrying amounts of exploration and evaluation assets are set out in Note 14.

**Development expenditure**

Development activities commence after commercial viability and technical feasibility of the project is established. Judgment is applied by management in determining when a project is commercially viable and technically feasible. Any judgments may change as new information becomes available. If, after having commenced the development activity, a judgment is made that a development asset is impaired, the appropriate amount will be written off to the Statement of Comprehensive Income.

**Rehabilitation provisions**

Certain estimates and assumptions are required to be made in determining the cost of rehabilitation and restoration of the areas disturbed during mining activities and the cost of dismantling of mining infrastructure in accordance with the Group's accounting policy at Note 1(d). The amount the Group is expected to incur to settle its future obligations includes estimates regarding: the appropriate rate at which to discount the liability, the expected timing of the cash flows and the expected life of mine (which is based on coal reserves noted above), the application of relevant environmental legislation, and the future expected costs of rehabilitation, restoration and dismantling.

Changes in the estimates and assumptions used could have a material impact on the carrying value of the rehabilitation and dismantling provision and related asset. The provision is reviewed at each reporting date and updated based on the best available estimates and assumptions at that time. The carrying amount of the rehabilitation provision is set out in Note 18.

**Recoverability of non-current assets**

As set out in Note 1(k), certain assumptions are required to be made in order to assess the recoverability of non-current assets where there is an impairment indicator. Key assumptions include future coal prices, future operating costs, discount rate and estimates of coal reserves. Estimates of coal reserves in themselves are dependent on various assumptions (refer above). Changes in these assumptions could therefore affect estimates of future cash flows used in the assessment of recoverable amounts, estimates of the life of mine and depreciation. Further details of impairment testing assumptions relating to goodwill (intangibles) are included in Note 13 and relating to coal projects are included in Note 14.

**Contingent liabilities – litigation**

Certain claims have been made against the Group. Judgments about the validity of the claims have been made by the Directors. Further details are included in Note 26.

**(bb) ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS**

During the current year the Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Coal of Africa Limited.

**AASB 3: Business Combinations**

In March 2008, the Australian Accounting Standards Board revised AASB 3 and as a result, some aspects of business combination accounting have changed. The changes apply only to business combinations which occur from 1 July 2009.

**RECOGNITION AND MEASUREMENT IMPACT**

*Recognition of acquisition costs* — The revised version of AASB 3 requires that all costs associated with a business combination be expensed in the period in which they were incurred. Previously such costs were capitalised as part of the cost of the business combination. As such, costs associated with the acquisition of NuCoal Group were expensed during the financial year.

*Measurement of contingent considerations* — The revised AASB 3 requires that contingent considerations associated with a business combination be included as part of the cost of the business combination. They are recognised at the fair value of the payment calculated having regard to probability of settlement. Any subsequent changes in the fair value or probability of payment are recognised in the statement of comprehensive income except to the extent where they relate to conditions or events existing at acquisition date, in which case the consideration paid is adjusted. The previous version of AASB 3 allowed such changes to be recognised as a cost of the combination impacting goodwill.

*Measurement of non-controlling interest* — For each business combination, the acquirer must measure any non-controlling interest in the acquiree either at the fair value of the non-controlling interest (the full goodwill method) or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Under the previous version of AASB 3 only the latter option was permitted.

*Recognition of contingencies* — The revised AASB 3 prohibits entities from recognising contingencies associated with a business combination, unless they meet the definition of a liability.

*Business combinations achieved in stages* — The revised AASB 3 requires that where a business combination is achieved in stages, any previously held equity interest is to be re-measured to fair value and the resulting gain or loss, being the difference between fair value and historical cost, is to be recognised in the statement of comprehensive income. The previous version of AASB 3 accounted for each exchange transaction separately, using cost and fair value information at the date of each exchange to determine the amount of any goodwill associated with the acquisition. It was therefore possible to compare the cost of each individual investment with the fair value of identifiable net assets acquired at each step.

**DISCLOSURE IMPACT**

The revised AASB 3 contains a number of additional disclosure requirements not required by the previous version of AASB 3. The revised disclosures are designed to ensure that users of the Group's financial statements are able to understand the nature and financial impact of any business combinations on the financial statements.

The Group has applied the revised AASB 3 on its recent acquisition of NuCoal Group during the year.

**AASB 8: Operating Segments**

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed with the addition of a possible impact on the impairment testing of goodwill allocated to the cash generating units (CGUs) of the entity. Below is an overview of the key changes and the impact on the Group's financial statements.

**MEASUREMENT IMPACT**

*Identification and measurement of segments* — AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year.



## Notes to and forming part of the Financial Statements (continued)

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

## (bb) ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (continued)

**AASB 8: Operating Segments (continued)****MEASUREMENT IMPACT (continued)**

Under AASB 8, operating segments are determined based on management reports using the 'management approach', whereas under AASB 114 financial results of such segments were recognised and measured in accordance with Australian Accounting Standards. This has resulted in changes to the presentation of segment results, with inter-segment sales and expenses such as depreciation and impairment now being reported for each segment rather than in aggregate for total group operations, as this is how they are reviewed by the chief operating decision maker.

**IMPAIRMENT TESTING OF THE SEGMENT'S GOODWILL**

*AASB 136:* Impairment of Assets, para 80 requires that goodwill acquired in a business combination shall be allocated to each of the acquirer's CGUs, or group of CGUs that are expected to benefit from the synergies of the combination. Each cash generating unit (CGU) which the goodwill is allocated to must represent the lowest level within the entity at which goodwill is monitored, however it cannot be larger than an operating segment. Therefore, due to the changes in the identification of segments, there is a risk that goodwill previously allocated to a CGU which was part of a larger segment could now be allocated across multiple segments if a segment had to be split as a result of changes to AASB 8.

Management have considered the requirements of AASB 136 and determined the implementation of AASB 8 has not impacted the CGUs of each operating segment.

**DISCLOSURE IMPACT**

AASB 8 requires a number of additional quantitative and qualitative disclosures, not previously required under AASB 114, where such information is utilised by the chief operating decision maker.

This information is now disclosed as part of the financial statements.

**AASB 101: Presentation of Financial Statements**

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

**DISCLOSURE IMPACT**

*Terminology changes* — the revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

*Reporting changes in equity* — the revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

*Statement of comprehensive income* — the revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group's financial statements now contain a statement of comprehensive income.

*Other comprehensive income* — The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

**(cc) NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS**

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- *AASB 9: Financial Instruments* and *AASB 2009-11: Amendments to Australian Accounting Standards* arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
  - a. the objective of the entity's business model for managing the financial assets; and
  - b. the characteristics of the contractual cash flows.
- *AASB 124: Related Party Disclosures* (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

- *AASB 2009-4: Amendments to Australian Accounting Standards* arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and *AASB 2009-5: Further Amendments to Australian Accounting Standards* arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

- *AASB 2009-8: Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions* [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

- *AASB 2009-9: Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters* [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

## Notes to and forming part of the Financial Statements (continued)

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

## (cc) NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (continued)

- *AASB 2009-10: Amendments to Australian Accounting Standards – Classification of Rights Issues* [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.

- *AASB 2009-12: Amendments to Australian Accounting Standards* [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

- *AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretation 19* [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.

- *AASB 2009-14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

- *AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments* (applicable for annual reporting periods commencing on or after 1 July 2010).

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.

		CONSOLIDATED ENTITY	
		2010	2009
		\$	\$
<b>2. REVENUE</b>			
<b>Revenue from operating activities</b>			
Sale of goods	110,221,084	21,962,096	
Interest income	2,776,708	12,650,896	
Other revenue	519,645	1,151,082	
<b>Revenue from outside operating activities</b>			
Dividends received	104,310	-	
Profit from sale of property, plant and equipment	163,774	-	
<b>Total revenue from ordinary activities</b>	<b>113,785,521</b>	<b>35,764,074</b>	
<b>3. PROFIT/ (LOSS) FROM ORDINARY ACTIVITIES</b>			
<b>(a) Profit/(Loss) from ordinary activities before tax</b>			
<b>has been arrived at after charging/(crediting) the following items:</b>			
Depreciation of:			
- office furniture, fittings & equipment	314,012	211,782	
- leasehold improvements	251,720	27,992	
- buildings	1,968,172	17,337	
- motor vehicle	93,978	98,521	
- plant & equipment	9,868,720	3,477,828	
	<b>12,496,602</b>	<b>3,833,460</b>	
Amortisation of Development Assets	952,049	149,384	
Amortisation of Mining Assets (other tenements)	2,536,966	-	
Profit/(loss) on sale of property plant and equipment	(160,540)	-	
Net foreign exchange gain/(loss)	3,343,210	1,702,260	
Borrowing costs	1,216,008	127,427	
Operating lease expenses	898,015	232,319	
<b>(b) Individually significant items included in profit/(loss)</b>			
<b>from ordinary activities before income tax:</b>			
Diminution in value of assets held for sale	(8,386,435)	-	
Provision for diminution in value of Investments	(10,465,095)	(2,332,074)	
Amortisation of mining assets (Woestalleen)	(12,786,703)	-	
Amortisation of mining assets (other tenements)	(2,536,966)	-	
Amortisation of logistics assets	(2,208,375)	-	
Provision for non-recoverability of loans/ debtors	(2,311,431)	(392,078)	
Share-based payments to Directors/ Employees	(1,995,871)	(273,728)	
Port Take or Pay obligations	(3,625,644)	(3,945,804)	
Impairment of value of Mooiplaats Colliery/ goodwill	(52,779,745)	(1,125,000)	



## Notes to and forming part of the Financial Statements (continued)

	CONSOLIDATED ENTITY	
	2010 \$	2009 \$
<b>4. INCOME TAX EXPENSE AND DEFERRED TAX</b>		
<b>(a) Income tax expense</b>		
Current tax	3,479,364	182,126
Deferred tax	(15,839,865)	133,949
Over provision in prior year	9,758	-
Aggregate income tax expense	(12,350,743)	316,075
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit /(loss) before income tax expense	(113,792,036)	(14,203,901)
Tax at the Australian rate of 30% (2009: 30%)	(34,137,611)	(4,261,170)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non assessable items	-	(1,178,764)
Non deductible items	27,828,978	1,556,099
Under provision	(12,349)	-
Share based payments	-	82,118
Tax rate movement	492,669	-
Tax losses deducted/ utilised	1,803,614	(4,613,681)
Tax payable on dividends	10,455	-
Other temporary differences not brought to account	(8,336,499)	8,731,473
Income tax expense	(12,350,743)	316,075
<b>(c) Amounts recognised directly in equity</b>		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity		
Net deferred tax – debited/ (credited) directly to equity	393,697	-
	393,697	-
<b>Deferred tax assets</b>		
The balance comprises temporary differences attributable to:		
Capital allowance	15,716,959	-
Employee benefits/ accruals	-	39,419
Provisions	(3,114,569)	14,107
Amounts recognised directly in equity	(393,697)	-
Net deferred tax assets	12,208,693	53,526
Opening balance at 1 July	53,526	187,475
Charged to the statement of comprehensive income	12,679,404	-
Amounts recognised directly in equity	(393,697)	-
Prior year under provision	(12,349)	-
Exchange rate movement	(118,191)	(133,949)
Closing balance at 30 June	12,208,693	53,526

	CONSOLIDATED ENTITY	
	2010 \$	2009 \$
<b>Deferred tax liability</b>		
The balance comprises temporary differences attributable to:		
Capital allowance	(35,486,700)	-
Employee benefits/ accruals	-	-
Provisions	2,159,678	-
Amounts recognised directly in equity	-	-
Net deferred tax assets	(33,327,022)	-
Opening balance at 1 July	-	-
Charged to the statement of comprehensive income	964,363	-
Amounts recognised directly in equity	-	-
Prior year under provision	-	-
Acquisition of NuCoal	(3,049,799)	-
Deferred tax on NuCoal acquisition	(34,370,399)	-
Amortisation of NuCoal acquisition deferred tax	2,950,778	-
Exchange rate movement	178,035	-
Closing balance at 30 June	(33,327,022)	-

The CoAL Group recognises deferred tax benefits in its South African registered subsidiary companies and approximately \$12.2m (2009: \$53,526) has been brought to account as available benefits at year end.

Coal of Africa Limited, the Australian Company, has no revenue losses (2009: \$4 million) and approximately \$4.3 million (2009: \$5.3 million) in capital losses not brought to account as deferred tax benefits because the Directors do not believe it is appropriate to regard the utilisation of the tax benefits as probable.

## 5. (LOSS) / EARNINGS PER SHARE

Basic (loss) / profit per share		
(cents per share)	(22.21)	(3.55)
Weighted average number of ordinary shares used as the denominator	456,817,409	409,137,218

As at 30 June 2010, there were 25,487,498 (2009: 20,336,544) options outstanding over unissued capital exercisable at amounts ranging between \$0.50 and \$3.25 (2009: \$0.50 and \$3.25). Diluted EPS was not calculated for 2010 as the Consolidated Entity incurred a loss per share.

## Notes to and forming part of the Financial Statements (continued)

		CONSOLIDATED ENTITY	
		2010	2009
		\$	\$
<b>6. AUDITORS' REMUNERATION</b>			
Amounts received or due and receivable by the auditors of the Company:			
<i>Moore Stephens</i>			
-	audit and review of financial reports	110,437	71,000
-	other services	31,600	-
		<u>142,037</u>	<u>71,000</u>
Amounts received or due and receivable by the auditors of the subsidiaries			
<i>Moore Stephens MWM</i>			
-	audit and review of financial reports	381,881	47,505
-	other services	18,237	-
		<u>400,118</u>	<u>47,505</u>
<i>Deloitte &amp; Touche - Johannesburg</i>			
-	audit and review of financial reports	76,283	-
-	other services	26,965	-
		<u>103,248</u>	<u>-</u>
<i>Ernst &amp; Young - Johannesburg</i>			
-	audit and review of financial reports	82,881	-
-	other services	-	-
		<u>82,881</u>	<u>-</u>
<b>7. RECEIVABLES</b>			
<b>CURRENT</b>			
	Trade debtors	10,865,984	2,322,935
	Other debtors	24,564,318	20,454,953
	Provision for bad debts	(3,618,296)	(1,252,743)
		<u>31,812,006</u>	<u>21,525,145</u>
<b>8. ASSETS HELD FOR SALE (INVESTMENT)</b>			
<b>HOLFFONTEIN INVESTMENTS (PTY) LTD</b>			
	Carrying value of investment at beginning of year	25,540,957	25,207,997
	Diminution in value of asset held for sale	(8,386,435)	-
	Capitalised expenditure — at cost	136,705	307,613
	Exchange differences	137,076	145,857
	Expiry of Wildebeesfontein option	-	(120,510)
	Share of subsidiaries' net (loss) / profit	-	-
	Carrying value at end of year	<u>17,428,303</u>	<u>25,540,957</u>

The Company's investment in the Holfontein Project continues to be available for sale and the Company expects to enter a formal sale process during the 2011 financial year.

	CONSOLIDATED ENTITY	
	2010 \$	2009 \$
<b>9. INVENTORY</b>		
Raw Materials	817,910	997,437
Consumable Stores	29,486	57,813
Work in progress	13,003,753	5,769,970
Finished Goods	13,907,022	994,590
Residue Stock (Nickel)	1,116,145	794,963
	<u>28,874,316</u>	<u>8,614,773</u>

Inventory is stated at the lower of cost and net realisable value. Cost is determined according to the weighted average method. Finished products and work-in-progress include direct manufacturing costs.

## 10. OTHER FINANCIAL ASSETS

### Available for Sale Financial Assets:

#### Investments:

Shares in other corporations listed on a stock exchange at cost	7,794,136	3,097,970
Provision for diminution in value	(76,176)	(76,176)
At fair value	<u>7,717,960</u>	<u>3,021,794</u>
Shares in other private corporations — at cost	18,656,026	22,697,588
Less: Impairment write down	(5,000,000)	(2,120,742)
	<u>13,656,026</u>	<u>20,576,846</u>
Total	<u>21,373,986</u>	<u>23,598,640</u>
Market value of above investments listed on a stock exchange as at 30 June 2010	7,717,960	3,146,608



## Notes to and forming part of the Financial Statements (continued)

	CONSOLIDATED ENTITY	
	2010 \$	2009 \$
<b>11. PROPERTY, PLANT &amp; EQUIPMENT</b>		
Furniture, fittings and office equipment at cost	1,531,024	901,553
Less: Accumulated depreciation	(878,604)	(473,771)
	<u>652,420</u>	<u>427,782</u>
Motor vehicles at cost	1,363,708	640,522
Less: Accumulated depreciation	(353,150)	(271,526)
	<u>1,010,558</u>	<u>368,996</u>
Plant and equipment at cost	173,400,366	84,487,516
Less: Accumulated depreciation	(18,940,225)	(4,849,353)
	<u>154,460,141</u>	<u>79,638,163</u>
Leasehold Improvements at cost	1,269,385	826,801
Less: Accumulated amortisation	(103,995)	(71,144)
	<u>1,165,390</u>	<u>755,657</u>
Land and Buildings at cost	27,160,096	17,848,493
Less: Accumulated amortisation	(1,520,168)	(144,731)
	<u>25,639,928</u>	<u>17,703,762</u>
Total property, plant & equipment	<u>182,928,437</u>	<u>98,894,360</u>
Reconciliations of the carrying amount of each class of property, plant and equipment are set out below:		
<b>Furniture, fitting and office equipment</b>		
Carrying amount at the beginning of the year	427,783	254,323
Depreciation	(314,012)	(211,782)
Additions	264,027	387,966
Additions through acquisition of NuCoal	171,474	-
Disposals	-	(48,445)
Foreign exchange movements	103,148	45,721
Carrying amount at end of year	<u>652,420</u>	<u>427,782</u>
<b>Motor Vehicles</b>		
Carrying amount at the beginning of the year	368,996	328,528
Depreciation	(93,978)	(98,521)
Additions	68,106	164,874
Additions through acquisition of NuCoal	679,118	-
Disposals	(24,037)	(90,859)
Foreign exchange movements	12,353	64,974
Carrying amount at end of year	<u>1,010,558</u>	<u>368,996</u>

	CONSOLIDATED ENTITY	
	2010 \$	2009 \$
<b>Plant &amp; equipment</b>		
Carrying amount at the beginning of the year	79,638,164	1,397,313
Depreciation	(9,868,720)	(3,477,828)
Additions	67,904,443	81,865,680
Additions through acquisition of NuCoal	13,699,526	-
Disposals	(363,755)	(286,218)
Foreign exchange movements	3,450,483	139,217
Carrying amount at end of year	154,460,141	79,638,163
<b>Leasehold improvements</b>		
Carrying amount at the beginning of the year	755,657	77,756
Depreciation	(251,720)	(27,797)
Additions	636,153	701,172
Disposals	-	(9,447)
Foreign exchange movements	25,300	13,973
Carrying amount at end of year	1,165,390	755,657
<b>Land and Buildings</b>		
Carrying amount at the beginning of the year	17,703,762	1,018,049
Depreciation	(1,968,172)	(17,337)
Additions	8,422,565	16,487,811
Additions through acquisition of NuCoal	889,039	-
Disposals	-	-
Foreign exchange movements	592,734	215,239
Carrying amount at end of year	25,639,928	17,703,762
<b>TOTAL PROPERTY, PLANT &amp; EQUIPMENT</b>	<b>182,928,436</b>	<b>98,894,360</b>

The land and buildings belonging to the wholly owned subsidiary, Harrisia Investment Holdings (Pty) Ltd, were subject to an independent valuation in 2008 by Alpro (Pty) Ltd at ZAR109 million (approximately \$16.36 million), on the basis of their continued use. The land and buildings belonging to the 100% owned NiMag (Pty) Ltd were valued during the financial year by Capgrow Business Group CK and valued at ZAR22.85 million (\$3.5 million).

## 12 DEVELOPMENT ASSETS

### Mooiplaats Project Development Assets

Carrying value at the beginning of the year	19,432,007	-
Reclassified from capitalised exploration expenditure	-	19,588,602
Additions	34,410,835	-
Reclassified to mining assets	(5,240,225)	-
Amortisation	(952,049)	(149,384)
Foreign exchange movements	(2,093,504)	(7,212)
Carrying amount at end of year	45,557,064	19,432,007

Development Assets are amortised on a unit of production basis over the life of the economically recoverable reserves. At balance sheet date 519,178 tonnes of coal had been mined.

## Notes to and forming part of the Financial Statements (continued)

	CONSOLIDATED ENTITY	
	2010 \$	2009 \$
<b>13. INTANGIBLES</b>		
Goodwill on consolidation	3,540,213	3,706,781
Reconciliation:		
Goodwill on consolidation – Beginning of year	3,706,781	3,169,660
Conversion of NiMag Preference shares	-	1,125,000
Impairment write down	-	(1,125,000)
Exchange rate movement	(166,568)	537,121
Carrying value at end of year	3,540,213	3,706,781

**Impairment Disclosures**

Goodwill is allocated to cash-generating units which are based on the Group's reporting segments.

	2010 \$	2009 \$
Manufacture & distribution of nickel & magnesium alloys	3,540,213	3,706,781
	3,540,213	3,706,781

The recoverable amount of the cash-generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5-year period. The cash flows are discounted using the yield of 5-year government bonds at the beginning of the budget period.

The following assumptions were used in the value-in-use calculations:

	GROWTH RATE	DISCOUNT RATE
Manufacture & distribution of nickel & magnesium alloys	5%	25%

Management has based the value-in-use calculations on budgets for this reporting segment. These budgets use historical weighted average growth rates to project revenue. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the periods which are consistent with inflation rates applicable to the locations in which the segment operates. Discounts are pre-tax and are adjusted to incorporate risks associated with the segment.

	CONSOLIDATED ENTITY	
	2010 \$	2009 \$
<b>14. COAL PROJECT INVESTMENT AND EXPLORATION EXPENDITURE</b>		
Exploration and evaluation expenditures in respect of mining areas of interest		
<b>Consolidated Makhado Project (100% owned)</b>		
Acquisition of tenements of the Makhado coal project – at cost	45,063,090	34,256,167
Acquisition of Sekoko tenements – at cost	-	10,685,250
Exchange differences	(1,725,455)	121,673
At cost	43,337,635	45,063,090
Capitalised exploration expenditure – at cost	10,565,086	8,224,339
	53,902,721	53,287,429

	CONSOLIDATED ENTITY	
	2010 \$	2009 \$
<b>Vele Colliery (100% owned; 2009:74%)</b>		
Acquisition of tenements of the Vele coal project — at cost	11,784,567	11,752,748
Acquisition of 6% of Vele Colliery	4,139,200	-
Acquisition of 20% of Vele Colliery	13,558,058	-
Exchange differences	(888,321)	31,819
At cost	28,593,504	11,784,567
<b>Capitalised exploration expenditure — at cost</b>	18,809,860	7,315,971
	47,403,364	19,100,538
<b>Mooiplaats Colliery (100% owned)</b>		
Acquisition of tenements of the Mooiplaats Colliery — at cost	129,272,446	128,923,402
Reclassification from Development Assets	5,240,225	-
Fair value impairment	(52,779,745)	-
Exchange differences	(793,690)	349,044
At fair value	80,939,236	129,272,446
<b>Capitalised exploration expenditure — at cost</b>	-	19,588,602
<b>Less: Reclassified as Development Assets</b>	-	(19,588,602)
	80,939,236	129,272,446
<b>Woestalleen Colliery &amp; other NuCoal mining assets (NuCoal Group) (100% owned)</b>		
Acquisition of tenements of the Woestalleen Colliery — at cost	114,567,994	-
Acquisition of other tenements — at cost	13,685,092	-
Amortisation of mining asset — Woestalleen	(12,786,703)	-
Amortisation of other mining tenements	(2,536,966)	-
Exchange differences	516,804	-
At cost	113,446,221	-
<b>Capitalised exploration expenditure — at cost</b>	-	-
	113,446,221	-
<b>Total Mining Assets</b>	266,316,596	186,120,103
<b>Total capitalised exploration expenditure</b>	29,374,946	15,540,310

#### Impairment disclosures

The above mining assets have been assessed for impairment by comparing against the value-in-use calculations of each coal project (which represent individual cash generating units). Value-in-use is calculated based on the present value of cash flow projections over the expected life of each coal project. The discount rates applied in the value-in-use range from 9% to 10% depending on the stage of development of the project.

Based on the value-in-use projections, none of the above projects were considered to be impaired with the exception of the Mooiplaats Colliery. During the year ended 30 June 2010, an impairment write down of \$52.8 million has been recognised in respect of this project following a review by an independent consultant in June 2010.



## Notes to and forming part of the Financial Statements (continued)

	CONSOLIDATED ENTITY	
	2010 \$	2009 \$
<b>15. LOGISTICS ASSETS</b>		
<b>MAPUTO TERMINAL, MOZAMBIQUE</b>		
20 year option payment	23,296,447	23,296,447
Accumulated amortisation	(2,208,375)	-
	<u>21,088,072</u>	<u>23,296,447</u>
Terminal development loan	19,887,994	19,887,994
Loan repayment	(2,088,006)	-
Exchange differences	(990,588)	-
	<u>16,809,400</u>	<u>19,887,994</u>
	<u>37,897,472</u>	<u>43,184,441</u>

The option payment guarantees the Company 1mtpa throughput capacity for five years via the Maputo Terminal in Mozambique, with an option to extend the period by a further 15 years. It allows CoAL to participate in any further expansion of the Terminal, granting the Company an annual throughput tonnage commensurate with its financial contribution to the expansion.

The Terminal Development Loan is an interest free loan repayable over 12 years in equal annual instalments. The loaned funds will be used to expand the annual throughput capacity at the Maputo Terminal and will ensure that CoAL receives an additional 2mtpa of throughput capacity from the end of 2010 and will continue as per the option period above.

CoAL commenced utilising the Logistics Assets to the extent agreed with the rights holder or owner and the amortisation of the capitalised logistics costs are amortised over the expected period of use.

**16. PAYABLES****CURRENT**

Trade creditors	37,165,170	4,026,341
Sundry creditors and accruals	25,977,478	6,382,175
Other	17,583,630	623,033
	<u>80,726,868</u>	<u>11,031,549</u>

## CONSOLIDATED ENTITY

2010	2009
\$	\$

**17. INTEREST BEARING LIABILITIES****CURRENT LIABILITIES**

Secured loans – finance lease

1,007,472 -

Unsecured loans

23,345,395 -

24,352,867	-
------------	---

**NON-CURRENT LIABILITIES**

Secured Loans

567,014 -

Finance leases

1,191,041 -

Unsecured Loans

- -

1,758,055	-
-----------	---

**Finance lease obligations**

Minimum lease payments due

- Within one year

1,172,313 -

- between two to five years

1,253,071 -

Less : Future finance charges

(226,871) -

Present value of minimum lease payments

2,198,513	-
-----------	---

Present value of minimum lease payments due

- within one year

1,007,472 -

- between two to five years

1,191,041 -

2,198,513	-
-----------	---

Non-current liabilities

1,191,041 -

Current liabilities

1,007,472 -

2,198,513	-
-----------	---

The Company leases certain motor vehicles and equipment under finance lease.

The average lease term is 5 years and the average effective borrowing rate is 10.26%.

**Financial arrangements**

The Consolidated Entity has the access to the following lines of credit:

General banking facility/bank overdraft

2,184,205 1,266,861

Term loan facility

5,661,000 3,982,037

Forward exchange contract facility

2,295,000 4,274,100

Revolving facility

23,345,395 -

Direct working capital

1,147,500 -

Contingent facility

4,207,500 -

Settlement facility

1,224,000 -

40,064,600	9,522,997
------------	-----------

## Notes to and forming part of the Financial Statements (continued)

## 17. INTEREST BEARING LIABILITIES (continued)

	CONSOLIDATED ENTITY	
	2010 \$	2009 \$
<b>Facilities utilised at reporting date</b>		
Bank overdraft	-	-
Forward exchange contract facility	-	-
Revolving facility	23,345,595	-
Direct working capital	-	-
Contingent facility	-	-
Settlement facility	-	-
	<b>23,345,395</b>	<b>-</b>
<b>Facilities not utilised at reporting date</b>		
Bank overdraft	2,184,205	1,266,861
Term loan facility	5,661,000	3,982,037
Forward exchange contract facility	2,295,000	4,274,100
Direct working capital	1,147,500	-
Contingent facility	4,207,500	-
Settlement facility	1,224,000	-
	<b>16,719,205</b>	<b>9,522,987</b>

*Bank overdrafts, term facility and forward exchange contract facility*

The various facilities described above are secured by:

- Unlimited cession of debtors;
- Registration of a general and special notarial bond over stock, plant and equipment for an amount of \$2,295,000 (ZAR15,000,000) supported by a cession of fire and SASRIA policy;
- Unlimited suretyship by Metalloy Fibres (Pty) Ltd supported by:
  - Cession of its loan account in the Borrower;
  - Unlimited cession of debtors;
  - Negative pledge of the assets of the Company;
- Cession of the Customer Foreign Currency Account held at the Bank; and
- Assets financed under the AVAF Instalment finance facility of \$23,715 (ZAR155,000).

*Revolving credit facility*

The revolving credit facility is a US\$20 million unsecured, revolving loan facility agreement for an initial term of 12 months and attracts interest rate of LIBOR plus 3%.

Direct working capital, contingent and settlement facilities

*The direct working capital, contingent and settlement facilities disclosed above are secured by:*

- Cession of short term insurance policies;
- General notarial bond for \$612,000 (ZAR4,000,000) over personal and moveable assets of NuCoal Mining (Pty) Ltd;
- General notarial bond for \$535,500 (ZAR3,500,000) over personal and moveable assets of NuCoal Mining (Pty) Ltd;
- Special notarial bond for \$657,900 (ZAR4,300,000) over NuCoal Mining (Pty) Ltd's cyclone separation plant and drum separation plant;
- Copy of a special notarial bond for \$1,422,900 (ZAR9,300,000) over NuCoal Mining (Pty) Ltd's cyclone separation plant and drum separation plant;
- Unlimited suretyship by Woestalleen Colliery (Pty) Ltd for the obligations of NuCoal Mining (Pty) Ltd; and
- Cession of the debts of NuCoal Mining (Pty) Ltd

## CONSOLIDATED ENTITY

2010  
\$

2009  
\$

**18. PROVISIONS**

## CURRENT

Employee entitlements

1,023,228

262,081

## NON-CURRENT

Rehabilitation Provision

10,790,064

2,383,801

**Number of employees**

Number of employees at year end was 427 (2009: 112)

The calculation of rehabilitation liability (and corresponding capitalised closure cost assets where necessary) rely on estimates of costs at present value required to rehabilitate and restore disturbed areas of land to their original condition (for the Mooiplaats and Woestalleen Collieries). These estimates are calculated by independent third parties and are regularly reviewed and adjusted in order to ensure the most up to date data is used to calculate these balances.

**19. CONTRIBUTED EQUITY****(a) Issued and paid up capital**

530,514,663 ordinary fully paid shares (2009: 411,919,636) ordinary fully paid shares

778,046,671

569,267,119

778,046,671

569,267,119

**(b) Movements in contributed equity**

	2010 NUMBER	2010 \$	2009 NUMBER	2009 \$
Opening Balance	411,919,636	569,267,119	398,254,492	533,053,005
Exercise of Class E options at GBPO.65 per share	-	-	690,886	1,469,752
Issue of 12,000,000 shares to Coal Investments Limited at GBP1.30 pence per share	-	-	12,000,000	36,000,000
Issue of 375,000 shares in lieu of Put option	-	-	375,000	1,125,000
Issue of 55,000 shares in lieu of professional fees	-	-	55,000	165,000
Exercise of Class C options at GBPO.34 pence per share	-	-	196,688	226,887
Exercise of Class E options at GBPO.65 pence per share	-	-	297,570	628,985
Exercise of Class A options at \$0.50 cents per share	-	-	50,000	25,000
Capital raising costs incurred	-	-	-	(3,426,510)
Exercise of Class E options at GBPO.65 per share	465,239	923,912	-	-
Issue of shares to acquire 6% of the Vele Colliery	1,990,000	4,139,200	-	-
Issue of shares to raise capital	59,867,731	102,601,864	-	-
Exercise of Class E options at GBPO.65 per share	79,488	156,267	-	-
Exercise of Class E options at GBPO.65 per share	91,817	175,568	-	-
Exercise of Class A options at 50 cents per share	125,002	671,435	-	-
Issue of shares in lieu of professional fees	350,000	843,500	-	-
Issue of shares to acquire 20% of the Vele Colliery	5,625,750	13,558,058	-	-
Issue of shares to raise capital	50,000,000	98,231,292	-	-
Capital raising costs incurred	-	(12,521,544)	-	-
	530,514,663	778,046,671	411,919,636	569,267,119

Non-cash share issues disclosed above are recognised at fair value.

## Notes to and forming part of the Financial Statements (continued)

## 19. CONTRIBUTED EQUITY (continued)

## (c) Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings.

In the event of winding up of the Company ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

## (d) Options

Unissued ordinary shares of the Company under option at balance date are:

	NUMBER	EXERCISE PRICE	EXPIRY DATE
Class A Unlisted Options	9,074,997	\$0.50	30 September 2011
Class B Unlisted Options	250,000	\$2.05	1 May 2012
Class H Unlisted Options	600,000	\$1.25	1 May 2012
Class I Unlisted Options	1,650,000	\$3.25	31 July 2012
Class D Unlisted Options	7,000,000	\$1.25	30 September 2012
Class G Unlisted Options	1,000,000	\$1.90	30 September 2012
Class J Unlisted Options	5,000,000	\$2.74	30 November 2014
Class K Unlisted Options	912,500	\$1.90	30 June 2014

CONSOLIDATED ENTITY	
2010	2009
\$	\$

## 20. RESERVES

Capital profits reserve	136,445	136,445
Share option reserve	9,754,473	8,876,771
Foreign currency translation reserve	(4,875,339)	(1,823,690)
	<u>5,015,579</u>	<u>7,189,525</u>

*Movement during the year*

Foreign Currency Translation Reserve		
Opening balance	(1,823,690)	(5,390,389)
Foreign currency translation	(3,051,649)	3,566,699
Closing balance at year end	<u>(4,875,339)</u>	<u>(1,823,690)</u>

*Movement during the year*

Share option reserve		
Opening balance	8,876,771	9,524,105
Options granted	1,995,871	273,728
Options redeemed	(1,118,169)	(921,062)
Closing balance at year end	<u>9,754,473</u>	<u>8,876,771</u>

**Nature & Purpose of Reserves****Foreign currency translation reserve**

The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations.

**Capital profits reserve**

The capital profits reserve contains capital profits derived during previous financial years.

**Share option reserve**

Share based payments represent the value of unexercised share options to Directors and employees.



	CONSOLIDATED ENTITY	
	2010 \$	2009 \$
<b>21. ACCUMULATED LOSSES</b>		
Accumulated losses at the beginning of the financial year	(60,456,243)	(45,936,267)
Net profit/(loss) attributed to members of parent entity.	(101,441,293)	(14,519,976)
Accumulated losses at the end of the financial year	<u>(161,897,536)</u>	<u>(60,456,243)</u>

**22. NON CONTROLLING INTERESTS**

Outside equity interests in consolidated entities comprise:

Interest in retained profits at the beginning of the year	7,639,634	3,071,250
Interest in profits from operating activities after income tax	-	-
Interests in reserves	-	-
Interests in profits/reserves at the end of the financial year	<u>7,639,634</u>	<u>3,071,250</u>
50% acquisition of Coal of Madagascar	-	4,568,384
74% acquisition of Freewheel Trade & Invest (coal bed methane project)	685,163	-
6% acquisition of Limpopo Coal Company	(705,750)	-
20% acquisition of Limpopo Coal Company	(2,365,500)	-
<b>Total Non Controlling Interests</b>	<u>5,253,547</u>	<u>7,639,634</u>
Non Controlling Interest (Coal of Madagascar)	4,568,384	4,568,384
Non Controlling Interest (Freewheel Trade & Invest)	<u>685,163</u>	<u>3,071,250</u>

**23. FINANCIAL RISK MANAGEMENT****a. Financial Risk Management Policies**

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, leases, preference shares, and forward exchange contracts.

The main purpose of non-derivative financial instruments is to raise finance for Group operations.

Derivatives are used by the Group for hedging purposes. Such instruments include forward exchange and currency option contracts. The Group does not speculate in the trading of derivative instruments.

**i. Treasury Risk Management**

A finance committee consisting of senior executives of the Group meets on a regular basis to analyse financial risk exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

The committee's overall risk management strategy seeks to assist the Consolidated Entity in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

The finance committee operates under policies approved by the Audit Committee and Board of Directors. Risk management policies are approved and reviewed by the Audit Committee on a regular basis. These include the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

## Notes to and forming part of the Financial Statements (continued)

**23. FINANCIAL RISK MANAGEMENT (continued)****a. Financial Risk Management Policies (continued)****ii. Financial Risk Exposures and Management**

The main risks the Group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk.

*Interest rate risk*

Interest rate risk has been reduced by the Company repaying its outstanding long term debt.

*Foreign currency risk*

The Group is exposed to fluctuations in foreign currencies arising from having deposits in various currencies as well as the sale and purchase of goods and services in currencies other than the Group's measurement currency.

CoAL's operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the South African Rand and United States dollar. CoAL is exposed to currency risk on cash reserves, deposits received, trade receivables, inventory and borrowings.

Foreign exchange risk arises from future commercial transactions and liabilities denominated in currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow. CoAL has not entered into any forward exchange contracts as at 30 June 2010 and is currently fully exposed to foreign exchange risk.

The carrying amounts of the Group's financial assets and liabilities are denominated in three different currencies as set out below:

	ZAR \$'000	USD\$ \$'000	AS \$'000	TOTAL \$'000
<b>30 June 2010</b>				
<b>Financial assets</b>				
Cash and cash equivalents	31,067	578	69,418	101,063
Trade and other receivables	31,846	17,800	3,575	53,221
Total financial assets	62,913	18,378	72,993	154,284
<b>Financial liabilities</b>				
Borrowings	2,766	23,345	-	26,111
Trade and other payables	73,283	-	8,705	81,988
Total financial liabilities	76,049	23,345	8,705	108,099
<b>30 June 2009</b>				
<b>Financial assets</b>				
Cash and cash equivalents	62	31	85,516	85,609
Trade and other receivables	19,520	21,131	6,611	47,262
Total financial assets	19,582	21,162	92,127	132,871
<b>Financial liabilities</b>				
Borrowings	-	-	-	-
Trade and other payables	9,058	120	4,575	13,758
Total financial liabilities	9,058	120	4,575	13,758

*Liquidity risk*

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. The Group's current policy is to ensure no more than 10% of borrowings should mature in any 12 month period. This may change as debt is incurred to finance the acquisition of assets with varying expected rates of return.

*Credit risk*

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

Credit risk is managed on a group basis and reviewed regularly by the finance committee. It arises from exposures to customers as well as through certain derivative financial instruments and deposits with financial institutions.

The finance committee monitors credit risk by actively assessing the rating quality and liquidity of counter parties:

- only banks and financial institutions with an 'A' rating are utilised;
- all potential customers are rated for credit worthiness taking into account their size, market position and financial standing; and
- customers that do not meet the Group's strict credit policies may only purchase using cash.

The Group only invests in listed available-for-sale financial assets that have a minimum 'A' credit rating. Unlisted available-for-sale financial assets are not rated by external credit agencies. These are reviewed regularly by the Group to ensure that credit exposure is minimised.

The credit risk for counterparties included in trade and other receivables at 30 June 2010 is detailed below:

	<b>CONSOLIDATED GROUP</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Trade and other receivables</b>		
AA rated counterparties	10,062,505	10,202,792
Counterparties not rated	21,749,501	11,322,353
<b>Total</b>	<b>31,812,006</b>	<b>21,525,145</b>

Credit risk for derivative financial instruments arises from the potential failure by counter-parties to the contract to meet their obligations. The credit risk exposure to forward exchange contracts is the net fair value of these contracts as disclosed below.

The consolidated Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the consolidated Group.

Concentration of credit risk on trade and term debtors has decreased during the year in respect of the business undertaken by NiMag. As at 30 June 2010, 40% (2009: 32%) of the Consolidated Entity's trade debtors were owed by United States and European customers, 3% by South African debtors and 57% by customers in Asia.

Other than the concentration of credit risk described above, the Consolidated Entity is not materially exposed to any individual overseas country or individual customer.

The ageing of the Group's trade receivables at the reporting date was:

	<b>GROSS 2010 \$</b>	<b>IMPAIRMENT 2010 \$</b>	<b>GROSS 2009 \$</b>	<b>IMPAIRMENT 2009 \$</b>
Not past due	8,886,196	-	1,599,102	-
Past due 0-30 days	1,162,311	-	343,725	(24,391)
Past due 31-120 days	777,907	-	-	-
Past due 121 days to one year	39,571	-	380,108	(380,108)
More than one year	-	-	-	-
	<b>10,865,984</b>	<b>-</b>	<b>2,322,935</b>	<b>(404,499)</b>

## Notes to and forming part of the Financial Statements (continued)

**23. FINANCIAL RISK MANAGEMENT (continued)****a. Financial Risk Management Policies (continued)***Price risk*

CoAL is exposed to financial risks arising from changes in coal prices. CoAL prices are expected to fluctuate in the next financial year. Further contracts have been entered into with Eskom and other local buyers for the middlings and run of mine sales. These contracts will run for between 1 and 3 years. The Group has not entered into any further derivative contracts to manage risk of a decline in coal process and reviews its outlook for coal prices regularly in considering the need for active financial management. Ongoing drilling, sampling and geological monitoring of the reserves being mined is done to ensure the correct quality is mined and processed through the plants to facilitating a maximum yield of export products.

The Group is also exposed to commodity price risk through its NiMag Group of subsidiaries. Nickel prices have been volatile on the London Metals Exchange over the past three years but the Company is able to hedge a significant amount of the Nickel price risk in its pricing agreement with customers, therefore the NiMag Group does not currently hedge the price it sells its Nickel products at. Nickel, as well as base metal futures markets and economic forecasts are constantly monitored to determine whether to implement a hedging policy.

**b. Financial Instruments****i. Derivative Financial Instruments**

Derivative financial instruments are used by the Group to hedge exposure to exchange rate risk associated with foreign currency borrowings and interest rate risk associated with movements in interest rates which impact on the borrowings of the Group. Transactions for hedging purposes are undertaken with the use of minimum collateral as only reputable institutions with sound financial positions are dealt with.

*Forward Exchange Contracts*

The consolidated Group enters into forward exchange contracts to buy and sell specified amounts of foreign currencies in the future at stipulated exchange rates. The objective in entering the forward exchange contracts is to protect the consolidated Group against unfavourable exchange rate movements for both the contracted and anticipated future sales and purchases undertaken in foreign currencies.

The accounting policy in regard to forward exchange contracts is detailed in Note 1(o).

At balance date, there were no outstanding forward exchange contracts.

ii. *Financial Instrument Composition and maturity analysis:*

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the balance sheet.

**Financial Instrument Composition and Maturity Analysis**

	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	2009 %	FIXED INTEREST RATE MATURING									
			FLOATING INTEREST RATE		WITHIN 1 YEAR		1 TO 5 YEARS		OVER 5 YEARS		NON INTEREST BEARING	
			2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
			\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Consolidated entity</b>												
<b>Financial Assets</b>												
Cash and Cash equivalents	5.7	4.3	-	-	101,062,757	87,032,875	-	-	-	-	-	-
Forward exchange contracts (notional principle amounts)	-	-	-	-	-	-	-	-	-	-	-	-
Trade and other receivables	-	-	-	-	-	-	-	-	-	-	31,812,006	21,525,145
Other financial assets	-	-	-	-	-	-	-	-	-	-	21,373,986	23,598,640
			-	-	-	-	-	-	-	-	53,185,992	45,123,785
			-	-	101,062,757	87,032,875	-	-	-	-	101,062,757	87,032,875
<b>Financial Liabilities</b>												
Trade and other payables	-	-	-	-	-	-	-	-	-	-	80,726,868	11,031,549
Borrowings	3.9	-	23,345,395	-	-	-	2,765,527	-	-	-	-	-
			23,345,395	-	-	-	2,765,527	-	-	-	80,726,868	11,031,549
			-	-	-	-	-	-	-	-	106,837,790	11,031,549

iii. *Net Fair Values*

The net fair values of:

- Term receivables are determined by discounting the cash flows, at the market interest rates of similar securities, to their present value.
- Listed investments have been valued at the quoted market bid price at balance date, adjusted for transaction costs expected to be incurred. For unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment.
- Other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings, to their present value.
- Forward exchange contracts are the recognised unrealised gain or loss at balance date determined from the current forward exchange rates for contracts with similar maturities.
- Other assets and other liabilities approximate their carrying value.
- No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments and forward exchange contracts.
- No financial assets have been identified where the carrying amount exceeds net fair values. Controlled financial assets are carried at cost (refer note 10).



## Notes to and forming part of the Financial Statements (continued)

## 23. FINANCIAL RISK MANAGEMENT (continued)

iii. *Net Fair Values (continued)*

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date.

	2010		2009	
	CARRYING AMOUNT \$	NET FAIR VALUE \$	CARRYING AMOUNT \$	NET FAIR VALUE \$
Financial Assets				
Assets held for sale at fair value	17,428,303	17,428,303	25,540,957	25,540,957
Other financial assets	21,373,986	21,373,986	23,723,454	23,723,454
Loans and receivables	31,812,006	31,812,006	21,525,145	21,525,145
	<u>70,614,295</u>	<u>70,614,295</u>	<u>70,789,556</u>	<u>70,789,556</u>
Financial Liabilities				
Payables	80,726,868	80,726,868	11,031,549	11,031,549
Other liabilities	26,110,923	26,110,923	-	-
	<u>106,837,791</u>	<u>106,837,791</u>	<u>11,031,549</u>	<u>11,031,549</u>

Fair values are materially in line with carrying values. A discount rate of 0% (2009: 0%) has been applied to all non-current borrowings to determine fair value.

iv. *Sensitivity Analysis**Interest Rate Risk, Foreign Currency Risk and Price Risk*

The Group has performed sensitivity analysis relating to its exposure to interest rate risk, foreign currency risk and price risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

*Interest Rate Sensitivity Analysis*

At 30 June 2010, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	CONSOLIDATED GROUP	
	2010 \$	2009 \$
Change in profit		
Increase in interest rate by 5%	13,817,990	18,757,263
Decrease in interest rate by 5%	1,621,361	(1,805,376)
Change in equity		
Increase in interest rate by 5%	13,817,990	18,757,263
Decrease in interest rate by 5%	1,621,361	(1,805,376)

*Foreign Currency Risk Sensitivity Analysis*

At 30 June 2010, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar, with all other variables remaining constant is as follows:

	<b>CONSOLIDATED GROUP</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Change in profit		
Improvement in AUD to USD by 10%	(43,655)	(210,475)
Decline in AUD to USD by 10%	(228,867)	(372,161)
Change in equity		
Improvement in AUD to USD by 10%	(43,655)	(210,475)
Decline in AUD to USD by 10%	(228,867)	(372,161)

At 30 June 2010, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the ZAR Dollar, with all other variables remaining constant is as follows:

	<b>CONSOLIDATED GROUP</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Change in profit		
Improvement in AUD to ZAR by 10%	3,290,637	2,504,708
Decline in AUD to ZAR by 10%	(3,290,637)	(2,504,708)
Change in equity		
Improvement in AUD to ZAR by 10%	(414,561)	320,165
Decline in AUD to ZAR by 10%	414,561	(320,165)

*Price Risk Sensitivity Analysis*

At 30 June 2010, the effect on profit and equity as a result of changes in the price risk, with all other variables remaining constant would be as follows:

	<b>CONSOLIDATED GROUP</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Change in profit		
Increase in average nickel price by 10%/tonne	621,059	594,053
Decrease in average nickel price by 10%/tonne	(621,059)	(594,053)
Change in equity		
Increase in average nickel price by 10%/tonne	621,059	594,053
Decrease in average nickel price by 10%/tonne	(621,059)	(594,053)
Change in profit		
Increase in average coal price by 10%/tonne	9,232,875	-
Decrease in average coal price by 10%/tonne	(9,232,875)	-
Change in equity		
Increase in average coal price by 10%/tonne	9,232,875	-
Decrease in average coal price by 10%/tonne	(9,232,875)	-

The above interest rate, foreign exchange rate and price risk sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

## Notes to and forming part of the Financial Statements (continued)

**24. SHARE-BASED PAYMENTS**

The following share-based payment arrangements existed at 30 June 2010:

8,000,000 share options over ordinary shares in CoAL, granted to CoAL Directors on 28 June 2006. The options allow the Directors to take up ordinary shares at an exercise price of \$0.50 each. The options are exercisable on or before 30 September 2011. The options hold no voting or dividend rights and are not transferable. Upon conversion, of the options to shares, the shares will rank equally with existing shares. At reporting date, none of the options had been taken up or had lapsed.

1,000,000 share options over ordinary shares in CoAL, granted to employees in South Africa as an incentive for performance on 24 November 2006. The options have an exercise price of \$0.50 each and are exercisable on or before 30 September 2011. The options hold no voting or dividend rights and are not transferable. Upon conversion, of the options to shares, the shares will rank equally with existing shares. At reporting date, 172,002 of the options had been taken up and none had lapsed.

7,000,000 share options over ordinary shares in CoAL were granted to Simon Farrell (Managing Director – 5,000,000 options) and Richard Linnell (Chairman – 2,000,000 options) on 5 June 2007. The options allow the Directors to take up ordinary shares at an exercise price of \$1.25 each. The options are exercisable on or before 30 September 2012. The options hold no voting or dividend rights and are not transferable. Upon conversion, of the options to shares, the shares will rank equally with existing shares. At reporting date, none of the options had been taken up or had lapsed.

1,625,000 share options at GBPO.65 (to Mirabaud Securities Limited and Blue Oar Securities Plc) exercisable on or before 30 November 2009 were granted over ordinary shares in CoAL. The options were part payment of brokerage fees in relation to placements that occurred in the 2008 financial year. The options held no voting or dividend rights and were not transferable. On 3 July 2008 690,886 options were exercised, on 9 June 2009 297,570 options were exercised, on 1 October 2009 465,239 were exercised, on 13 November 2009 79,488 options were exercised and on 26 November 2009, the remaining 91,817 options were exercised, converting the options to shares ranking equally with existing shares.

1,000,000 share options over ordinary shares in CoAL were granted to Blair Sergeant (Finance Director) on 10 April 2008. The options allow the Finance Director to take up ordinary shares at an exercise price of \$1.90 each. The options are exercisable on or before 30 September 2012. The options hold no voting or dividend rights and are not transferable. Upon conversion, of the options to shares, the shares will rank equally with existing shares. At reporting date, none of the options had been taken up or had lapsed.

600,000 share options at an exercise price of \$1.25 and 250,000 share options at an exercise price of \$2.05 over ordinary shares in CoAL were granted to employees in South Africa as an incentive for performance on 19 May 2008. The options are exercisable on or before 1 May 2012 and hold no voting or dividend rights and are not transferable. Upon conversion of the options to shares, the shares will rank equally with existing shares. At reporting date, none of the options had been taken up or had lapsed.

1,650,000 share options over ordinary shares in CoAL were granted to Riaan van der Merwe (Chief Operations Officer) on 1 December 2008. The options allow the Chief Operations Officer to take up ordinary shares at an exercise price of \$3.25 each. The options are exercisable on or before 31 July 2012. The options hold no voting or dividend rights and are not transferable. Upon conversion, of the options to shares, the shares will rank equally with existing shares. At reporting date, none of the options had been taken up or had lapsed.

3,000,000 share options over ordinary shares in CoAL were granted to Simon Farrell (Executive Deputy Chairman) on 8 December 2009. The options allow the Executive Deputy Chairman to take up ordinary shares at an exercise price of \$2.74 each. 2,000,000 of the options vest one year after the granting of the NOMR for the Vele Colliery and the remaining 1,000,000 options vest one year after the granting of the Makhado Project NOMR. The 3,000,000 options are exercisable on or before 30 November 2014 and hold no voting or dividend rights and are not transferable. Upon conversion, of the options to shares, the shares will rank equally with existing shares. At reporting date, none of the options had been taken up or had lapsed.

2,000,000 share options over ordinary shares in CoAL were granted to the Finance Director, Blair Sergeant on 8 December 2009. The options allow the Finance Director to take up ordinary shares at an exercise price of \$2.74 each. 500,000 of the options vest on closing of the NuCoal acquisition transaction, 1,000,000 of the options vest one year after the granting of the NOMR for the Vele Colliery and the remaining 500,000 options vest one year after the granting of the Makhado Project NOMR. The options are exercisable on or before 30 November 2014 and hold no voting or dividend rights and are not transferable. Upon conversion, of the options to shares, the shares will rank equally with existing shares. At reporting date, none of the options had been taken up or had lapsed.

912,500 options were issued to eligible employees of CoAL as part of the Employee Share Option Plan ("ESOP") on 25 February 2010. Shareholders of the Company approved the adoption of the ESOP on 30 November 2009. The ESOP gives eligible employees and officers of the Company the opportunity in the form of options to subscribe for shares in the Company. The options issued under this scheme are exercisable prior to 30 June 2014, have an exercise price of \$1.90, are not transferable and hold no voting or dividend rights. Upon conversion, the shares will rank equally with existing shares. At reporting date, none of the options had been taken up or had lapsed.

On 23 October 2009, the Company issued 1,990,000 fully paid ordinary shares, valued at \$4,139,200, to acquire a 6% interest in the Vele Colliery.

On 25 February 2010, the Company issued 350,000 fully paid ordinary shares to an external consultant, valued at \$843,500, in lieu of professional fees. The \$843,500 has been expensed to the statement of comprehensive income. On the same day, an additional 5,625,750 fully paid ordinary shares were issued, valued at \$13,558,058, to acquire the remaining 20% interest in Vele, which effectively increased the Company's stake in this project to 100%.

All options granted are ordinary shares in CoAL, which confer a right of one ordinary share for every option held.

	PARENT ENTITY			
	2010		2009	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE \$	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE \$
Outstanding at beginning of year	20,336,544	1.12	19,171,688	0.77
Granted	5,912,500	2.61	1,650,000	3.25
Forfeited	-	-	-	-
Exercised	(761,546)	1.21	(1,235,144)	1.20
Expired	-	-	-	-
Outstanding at year end	25,487,498	1.46	20,336,544	1.12
Exercisable at year end	19,789,165	0.86	20,336,544	1.00

No options expired during the year ended 30 June 2010. The following options were exercised during the year:

CLASS	DATE EXERCISED	EXERCISE PRICE	NUMBER OF OPTIONS EXERCISED
Class E options	1 October 2009	GBP 0.65	465,239
Class E options	13 November 2009	GBP 0.65	79,488
Class E options	26 November 2009	GBP 0.65	91,817
Class A options	30 June 2009	\$ 0.50	125,002
			<u>761,546</u>

The options outstanding at 30 June 2010 had a weighted average exercise price of \$1.46 (2009: \$1.12) and weighted average remaining contractual life of 2.23 years (2009: 2.52 years). Exercise prices range from \$0.50 to \$3.25 (2009: \$0.50 to \$3.25) in respect of options outstanding at 30 June 2010. The weighted average fair exercise price value of the options granted during the year was \$2.61.

These option prices were calculated using the Binomial Option Valuation pricing model applying the following inputs:

Weighted average exercise price	\$1.46
Weighted average life of the option	2.23 years
Underlying share price	\$0.77-\$4.65
Expected share price volatility	100%
Risk free interest rate	4.0-5.07%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

The life of an option is based on the historical exercise patterns, which may not eventuate in the future.

Included under employee benefits expense in the statement of comprehensive income is \$1,995,871 (2009: \$273,728), and relates, in full, to equity-settled share-based payment transactions.

## Notes to and forming part of the Financial Statements (continued)

	CONSOLIDATED ENTITY	
	2010 \$	2009 \$
<b>25. COMMITMENTS</b>		
Non-cancellable operating lease expense commitments		
Future operating lease rentals not provided for in the financial statements and payable:		
Within 1 year	3,383,792	768,316
After 1 year but no later than 5 years	3,850,309	1,820,343
	<u>7,234,101</u>	<u>2,588,659</u>

The Consolidated Entity leases property under non-cancellable operating leases expiring within the next five years. Leases generally provide the Consolidated Entity with a right of renewal at which time all terms are renegotiated.

**Contractual Commitments****Holfontein**

CoAL has undertaken that it will first mine all saleable seam 5 and thereafter seams 4 and 2 coal reserves in the Holfontein Project in accordance with the prospecting work programme previously submitted to the DMR. Deviation from this can be made provided it is supported by a report prepared by an independent person appointed by the parties. In the event of the other seams other than seam 5 being mined, a development fee will be payable to the vendor - the development fee will be five million tonnes at a minimum of ZAR4.00 per tonne FOT.

**Tshikunda**

The Company has entered an agreement to purchase 60% of Tshikunda Mining (Pty) Ltd, which holds the New Order Prospecting Rights over an area of 32,000 hectares in the Limpopo Province. Section 11 approval for the transaction was obtained in June 2008 and the Company has paid ZAR15 million of the ZAR20 million with the balance purchase price payable in CoAL equity. CoAL has undertaken to spend up to ZAR50 million (\$7.65 million) to explore the project to a bankable stage.

**Sekoko**

CoAL's wholly owned subsidiary, Regulus Investment Holdings (Pty) Ltd, has entered an agreement to acquire 100% of the five prospecting rights from Sekoko Coal (Pty) Ltd which owns the NOPR on the farms. Control of the NOPR will be transferred to Regulus Investment Holdings (Pty) Ltd upon granting of Section 11 approval the DMR which was applied for in August 2009. The purchase price of ZAR12.5 million (\$1,913 million) will be paid when the remaining conditions precedent are satisfied.

**Rio Farm Swap**

The Company has entered an agreement with subsidiaries of Rio Tinto to cede to CoAL certain NOPR that are contiguous to the Makhado Project. In return, CoAL will cede certain NOPR and interests therein to Rio Tinto controlled entities. The Company and Rio Tinto have submitted a section 102 application to the DMR for the grant of the cession.

**26. CONTINGENT LIABILITIES**

In accordance with normal industry practice, the Company has agreed to provide financial support to its 100% controlled entities.

Further contingent liabilities relate to legal proceedings instituted by Envicoal (Pty) Ltd in South Africa. The claimant, Envicoal (Pty) Limited, has claimed the sum of ZAR188,808,550 (\$28,887,708), alternatively ZAR157,098,650 (\$24,086,093), further alternatively ZAR139,670,450 (\$21,369,579) from CoAL's wholly owned subsidiary, NuCoal (Pty) Ltd in terms of a written Coal Supply Agreement concluded by the parties in August 2007. NuCoal has defended the matter and it has been referred to arbitration. The Directors are of the opinion that the action currently holds insufficient merit for provision to be made in the financial statements.

CoAL is currently involved in a dispute with Ferret Mining (Pty) Ltd who has claimed restitution of 26% of the issued share capital of Mooiplaats Mining Limited, on the basis of a fraud which has allegedly been perpetrated between two individuals who are not related to Mooiplaats Mining Limited or the Group. The Company anticipates that the claim will in all likelihood be heard around March or April of 2011, although this depends upon how actively Ferret Mining, as the applicant, pursues the matter going forward. If Ferret Mining is successful in its claim, the Company has received legal advice that Ferret Mining will in any event be obliged to compensate the Company for the fact that the shares, which are the subject of the restitution claim, are now significantly more valuable than they were when previously owned by Ferret Mining. The Company will apply for a conditional counter-relief to that effect and will do so when its answering papers are filed.

A further matter relates to Motjoli Resources (Proprietary) Limited ("Motjoli") and Motjoli Resources Advisory Services CC ("Motjoli Advisory") (the "Plaintiffs") who have instituted an action in the South Gauteng High Court, citing, amongst others, CoAL and Mooiplaats Mining Limited as defendants. The Plaintiffs are claiming a contractual entitlement to be issued with a further 4,750,000 Shares in connection with the acquisition of the Mooiplaats Colliery. In the alternative, Motjoli is claiming payment from the defendants of ZAR95,475,000 (\$14,607,675). Mooiplaats Mining Limited and the Company have defended this claim and filed an appeal. The Plaintiffs have taken no further steps since the filing of the appeal.

There are no other contingent liabilities as at 30 June 2010.

## 27. RELATED PARTY DISCLOSURES

The names and positions held by key management personnel in office at any time during the financial year are:

Mr R Linnell	Non-Executive Chairman
Mr S Farrell	Executive Deputy Chairman (previously Managing Director)
Mr J Wallington	Chief Executive Officer and Executive Director (appointed 15 June 2010)
Mr B Sergeant	Finance Director
Prof A Nevhutanda	Executive Director
Mr P Cordin	Non-Executive Director
Mr S Bywater	Non-Executive Director
Mr P Leonard	Non-Executive Director (resigned 27 August 2009)
Mr H Verster	Non-Executive Director (appointed 27 August 2009, resigned 13 August 2010)
Mr R van der Merwe	Chief Operations Officer
Mr N Pretorius	Head: Engineering
Mr W Hattingh	General Manager: Commercial

Key management personnel compensation is included in the Directors' Report as part of the Remuneration Report.

### Equity instruments

#### Option holdings

##### Unlisted options

The movement during the reporting period in the number of options over ordinary shares exercisable at \$0.50 on or before 30 September 2011 held directly, indirectly or beneficially by each key management personnel including their personally-related entities, is as follows:

	HELD AT 1 JULY 2009	GRANTED AS REMUNERATION	EXERCISED	OTHER CHANGES	HELD AT 30 JUNE 2010
<b>Directors</b>					
Mr R Linnell	2,000,000	-	-	-	2,000,000
Mr S Farrell	4,000,000	-	-	-	4,000,000
Mr J Wallington	-	-	-	-	-
Mr B Sergeant	1,000,000	-	-	-	1,000,000
Prof A Nevhutanda	-	-	-	-	-
Mr P Cordin	1,000,000	-	-	-	1,000,000
Mr S Bywater	-	-	-	-	-
Mr P Leonard	-	-	-	-	-
Mr H Verster	-	-	-	-	-



## Notes to and forming part of the Financial Statements (continued)

## 27. RELATED PARTY DISCLOSURES (continued)

The movement during the reporting period in the number of options over ordinary shares exercisable at \$1.25 cents on or before 30 September 2012 held, directly, indirectly or beneficially by each key management personnel including their personally-related entities, is as follows:

	HELD AT 1 JULY 2009	GRANTED AS REMUNERATION	EXERCISED	OTHER CHANGES	HELD AT 30 JUNE 2010
<b>Directors</b>					
Mr R Linnell	2,000,000	-	-	-	2,000,000
Mr S Farrell	5,000,000	-	-	-	5,000,000
Mr J Wallington	-	-	-	-	-
Mr B Sergeant	-	-	-	-	-
Prof A Nevhutanda	-	-	-	-	-
Mr P Cordin	-	-	-	-	-
Mr S Bywater	-	-	-	-	-
Mr P Leonard	-	-	-	-	-
Mr H Verster	-	-	-	-	-

The movement during the reporting period in the number of options over ordinary shares exercisable at \$1.90 cents on or before 30 September 2012 held, directly, indirectly or beneficially by each key management personnel including their personally-related entities, is as follows:

	HELD AT 1 JULY 2009	GRANTED AS REMUNERATION	EXERCISED	OTHER CHANGES	HELD AT 30 JUNE 2010
<b>Directors</b>					
Mr R Linnell	-	-	-	-	-
Mr S Farrell	-	-	-	-	-
Mr J Wallington	-	-	-	-	-
Mr B Sergeant	1,000,000	-	-	-	1,000,000
Prof A Nevhutanda	-	-	-	-	-
Mr P Cordin	-	-	-	-	-
Mr S Bywater	-	-	-	-	-
Mr P Leonard	-	-	-	-	-
Mr H Verster	-	-	-	-	-

All options vested on the date of issue. No options held by specified Directors are vested but not exercisable.

The movement during the reporting period in the number of options over ordinary shares exercisable at \$2.74 cents on or before 30 November 2014 held, directly, indirectly or beneficially by each key management personnel including their personally-related entities, is as follows:

	HELD AT 1 JULY 2009	GRANTED AS REMUNERATION	EXERCISED	OTHER CHANGES	HELD AT 30 JUNE 2010
<b>Directors</b>					
Mr R Linnell	-	-	-	-	-
Mr S Farrell	-	3,000,000	-	-	3,000,000
Mr J Wallington	-	-	-	-	-
Mr B Sergeant	-	2,000,000	-	-	2,000,000
Prof A Nevhutanda	-	-	-	-	-
Mr P Cordin	-	-	-	-	-
Mr S Bywater	-	-	-	-	-
Mr P Leonard	-	-	-	-	-
Mr H Verster	-	-	-	-	-

2,000,000 of Mr Farrell's options vest one year after granting of a NOMR for the Company's Vele Colliery and the remaining 1,000,000 options vest one year after the DMR has granted CoAL a NOMR for the Makhado Project. 500,000 of Mr Sergeant's options vested on completion of the NuCoal transaction, 1,000,000 vest one year after granting of a NOMR for the Company's Vele Colliery and the remaining 500,000 options vest one year after the DMR has granted the CoAL a NOMR for the Makhado Project. At 30 June 2010, 500,000 of Mr Sergeant's options listed above had vested.

#### Equity holdings and transactions of key management personnel

The movement during the reporting period in the number of ordinary shares held, directly, indirectly or beneficially by each key management personnel including their personally-related entities, is as follows:

	HELD AT 1 JULY 2009	PURCHASES	RECEIVED ON EXERCISE OF OPTIONS/ REMUNERATION	OTHER CHANGES	HELD AT 30 JUNE 2010
<b>Directors</b>					
Mr R Linnell	801,550	-	-	-	801,550
Mr S Farrell	3,221,791	-	-	-	3,221,791
Mr J Wallington	-	-	-	-	-
Mr B Sergeant	-	-	-	-	-
Prof A Nevhutanda	55,000	-	-	-	55,000
Mr P Cordin	412,759	-	-	-	412,759
Mr S Bywater	-	-	-	-	-
Mr P Leonard	-	-	-	-	-
Mr H Verster	-	-	-	-	-

## Notes to and forming part of the Financial Statements (continued)

## 27. RELATED PARTY DISCLOSURES (continued)

The movement during the reporting period in the number of options over ordinary shares exercisable at \$3.25 cents on or before 31 July 2012 held, directly, indirectly or beneficially by each key management personnel including their personally-related entities, is as follows:

	HELD AT 1 JULY 2009	GRANTED AS REMUNERATION	EXERCISED	OTHER CHANGES	HELD AT 30 JUNE 2010
<b>Directors</b>					
Mr R Linnell	-	-	-	-	-
Mr S Farrell	-	-	-	-	-
Mr J Wallington	-	-	-	-	-
Mr B Sergeant	-	-	-	-	-
Prof A Nevhutanda	-	-	-	-	-
Mr P Cordin	-	-	-	-	-
Mr S Bywater	-	-	-	-	-
Mr P Leonard	-	-	-	-	-
Mr H Verster	-	-	-	-	-
<b>Key Management</b>					
Mr R van der Merwe	-	1,650,000	-	-	1,650,000
Mr N Pretorius	-	-	-	-	-
Mr W Hattingh	-	-	-	-	-

**Other Transactions with the Company or its Controlled Entities**

A number of Directors or their personally-related entities hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of those entities transacted with the Company or its subsidiaries during the financial year. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

No Directors entered or were party to any contract, whether directly or indirectly during the financial year.

## 28. CONTROLLED ENTITIES

### (a) Particulars in Relation to Controlled Entities

	COUNTRY OF INCORPORATION	OWNED %	
		2010	2009
Coal of Africa Limited	Australia		
<b>Controlled Entities:</b>			
Baobab Exploration (Pty) Ltd	South Africa	100	100
Chromet (Pty) Ltd*	South Africa	100	100
Coal Mining Madagascar SARL****	Madagascar	50	50
Coal of Africa & ArcelorMittal Analytical Laboratories (Pty) Ltd	South Africa	100	100
Coal of Madagascar Ltd	Guernsey	50	50
Cove Mining NL	Australia	100	100
Drilling and Geological Services of Madagascar Ltd***	Madagascar	100	100
Evoc Mining NL	Australia	100	100
Freewheel Trade & Invest 37 (Pty) Ltd	South Africa	74	-
Fumaria Property Holdings (Pty) Ltd	South Africa	100	100
Golden Valley Services Pty Ltd	Australia	100	100
Greenstone Gold Mines NL	Australia	100	100
GVM Metals Administration (South Africa) (Pty) Ltd	South Africa	100	100
Harrisia Investments (Pty) Ltd	South Africa	100	100
Hoffontein Investments (Pty) Ltd	South Africa	100	100
Index Mining and Management (Pty) Ltd**	South Africa	Deregistered	Deregistered
Langcarel (Pty) Ltd**	South Africa	100100	
Limpopo Coal Company (Pty) Ltd	South Africa	100	74
Magberg Manufacturing (Pty) Ltd*	South Africa	100	100
Master Alloy Traders Ltd	Jersey	Deregistered	Deregistered
Metalloy Fibres (Pty) Ltd*	South Africa	100	100
Mooiplaats Mining Ltd (previously Coal of Africa Ltd)	South Africa	100	100
NiMag (Pty) Ltd	South Africa	100	100
Nu-Coal (Pty) Ltd*****	South Africa	100	-
NuCoal Investments (Pty) Ltd*****	South Africa	100	-
NuCoal Mining (Pty) Ltd	South Africa	100	-
Pan African Drilling Ltd	British Virgin Islands	100	100
Regulus Investment Holdings (Pty) Ltd	South Africa	100	100
Silkwood Trading 14 (Pty) Ltd	South Africa	100	-
Tshikunda Mining (Pty) Ltd	South Africa	60	60
Vuna Coal Holdings (Pty) Ltd*****	South Africa	49	-
Woestalleen Colliery (Pty) Ltd*****	South Africa	100	-

\* Subsidiary companies of NiMag (Proprietary) Limited

\*\* Subsidiary companies of Coal of Africa Limited (South African registered subsidiary company)

\*\*\* Subsidiary company of Pan African Drilling Limited

\*\*\*\* Subsidiary company of Coal of Madagascar Limited

\*\*\*\*\* Subsidiary companies of NuCoal Mining (Proprietary) Limited

## Notes to and forming part of the Financial Statements (continued)

**28. CONTROLLED ENTITIES (continued)**

During 2009, Master Alloy Traders Ltd and Index Mining & Management (Pty) Ltd were deregistered during the year to reduce administration costs. Liabilities were settled prior to deregistration and the companies' assets were transferred to wholly owned subsidiaries of CoAL. The companies' nominal assets were written off prior to deregistration of the entity.

**(b) Acquisition of Controlled Entities****2010**

The Company acquired the following controlled entities during the year under review:

		PARENT ENTITY'S INVESTMENT		PERCENTAGE OWNED (%)	
	COUNTRY OF INCORPORATION	2010 \$	2009 \$	2010	2009
NuCoal Acquisition					
On 1 January 2010, CoAL acquired 100% of the NuCoal group of companies comprising the Woestalleen, Klipbank and Zonnebloem collieries and other prospecting rights. The total consideration paid was \$82,903,963 which includes a retention of \$4,972,500 (net of an unrealised foreign exchange gain of \$198,250) which will be paid if all warranties in terms of the Sale Agreement are satisfied. The entities and interests acquired in the transaction are:					
NuCoal Mining (Pty) Ltd	South Africa	82,903,963	-	100	-
Woestalleen Colliery (Pty) Ltd	South Africa	-	-	100	-
Vuna Coal Holdings (Pty) Ltd	South Africa	-	-	49	-
Nu-Coal (Pty) Ltd	South Africa	-	-	100	-
NuCoal Investments (Pty) Ltd	South Africa	-	-	100	-
Exotherm Energy (Woestalleen) (Pty) Ltd	South Africa	-	-	30	-

The cost of the investment in the NuCoal Group comprises the following:

Actual cash payments	71,356,523	-
Realised foreign exchange gain	6,376,690	-
Retentions payable	5,170,750	-
	<u>82,903,963</u>	<u>-</u>

<b>Silkwood Trading 14 (Pty) Ltd</b>	South Africa	6,256,613	-	100	-
Acquisition of the company which owns the New Order Prospecting Rights to the farm Alyth which borders the Company's Vele Colliery.					
<b>Freewheel Trade &amp; Invest 37 (Pty) Ltd</b>	South Africa	1,950,078	-	100	-

Shelf company acquired to hold the rights for the Company's coal bed methane project.

	2010 \$	2009 \$
<b>Acquisition of the NuCoal Group</b>		
Purchase consideration:		
Cost of investment	82,903,963	-
Fair value of the assets held at acquisition date:		
Property plant & equipment	15,439,157	-
Exploration and other financial assets	17,530,424	-
Receivables	9,809,296	-
Inventory	12,636,692	-
Cash & equivalents	3,897,649	-
Loans & other payables	(44,135,754)	-
Deferred tax and tax liability	(5,353,548)	-
Provisions	(7,117,548)	-
Fair value of investment	2,706,368	-
Mining asset on consolidation	114,567,994	-
Deferred tax on mining asset	(34,370,398)	-
	82,903,963	-

2009	COUNTRY OF INCORPORATION	PARENT ENTITY'S INVESTMENT	
		2010 \$	2009 \$
Harrisia Investment Holdings (Pty) Ltd	South Africa	-	149
Fumaria Property Holdings (Pty) Ltd	South Africa	-	155
Coal of Africa & ArcelorMittal Analytical Laboratories (Pty) Ltd	South Africa	-	1,049
Coal of Madagascar Ltd	Guernsey	-	50
Coal Mining Madagascar SARL	Madagascar	-	49.5
Pan African Drilling Limited	BVI	-	100
Drilling & Geological Services of Madagascar Ltd	Madagascar	-	100



## Notes to and forming part of the Financial Statements (continued)

	CONSOLIDATED ENTITY	
	2010 \$	2009 \$
<b>29. NOTES TO THE STATEMENT OF CASHFLOWS</b>		
<b>(a) Reconciliation of cash</b>		
For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statement of financial position.		
Cash at Bank	101,062,757	87,032,875
	<u>101,062,757</u>	<u>87,032,875</u>
<b>(b) Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities</b>		
Profit/(Loss) from ordinary activities after income tax	(101,441,293)	(14,519,976)
<i>Add/(less) non-cash items:</i>		
Amounts set aside (reversed from) provisions	-	2,534,144
Bad debt expense	-	11,180
(Profit)/ loss on disposal of assets	(3,234)	-
Depreciation/amortisation expense	30,980,695	3,982,844
Provision for doubtful debts	2,311,431	392,078
Diminution in value of investments	63,244,840	3,457,075
Non-cash consulting fees	843,500	-
Impairment of assets available for sale	8,386,435	-
Share options issued to directors and employees	1,995,871	-
Income tax movement	15,839,865	-
Loss on disposal of investment	-	188,895
Share based payments	-	438,728
Nickel revaluation	-	1,697,664
Foreign exchange (gain)/ loss — unrealised	3,033,480	(1,702,690)
<i>Change in assets and liabilities:</i>		
(Increase) in trade debtors and other receivables	(18,648,426)	(8,290,273)
(Increase)/Decrease in inventory	(32,896,235)	(3,729,668)
Increase/(Decrease) in creditors	44,201,154	4,851,743
Increase/(Decrease) in interest bearing liabilities	-	-
Increase/(Decrease) in deferred tax assets	(12,155,167)	133,949
Increase/(Decrease) in deferred tax liabilities	(832,137)	-
Deferred tax through equity	393,697	-
Increase/(Decrease) in income tax payable	(2,589,396)	-
Increase/(Decrease) in current provisions	(911,751)	-
Increase/(Decrease) in non-current provisions	2,961,613	-
Increase/(Decrease) in Tax Payable, FITB, PDIT, GST refundable	-	(236,610)
<b>Net cash provided by / (used in) operating activities</b>	<u>4,714,942</u>	<u>(10,790,917)</u>

## (c) Cash and non-cash investing and financing activities

The Parent entity acquired the following interests during the year:

	INTEREST OBTAINED	CASH PAID FOR ACQUISITION	FAIR VALUE OF EQUITY ISSUED FOR THE ACQUISITION	FAIR VALUE OF OPTIONS ISSUED FOR THE ACQUISITION
<b>2010</b>				
NuCoal Mining (Pty) Ltd	100%	\$71,356,523	-	-
Woestalleen Colliery (Pty) Ltd*	100%	-	-	-
Vuna Coal Holdings (Pty) Ltd*	49%	-	-	-
Nu-Coal (Pty) Ltd*	100%	-	-	-
NuCoal Investments (Pty) Ltd*	100%	-	-	-
Exotherm Energy (Woestalleen) (Pty) Ltd*	30%	-	-	-
Silkwood Trading 14 (Pty) Ltd	100%	\$6,256,613	-	-
Freewheel Trade & Invest 37 (Pty) Ltd	100%	\$1,950,078	-	-
Limpopo Coal Company (Pty) Ltd	6%	-	\$4,139,200	-
Limpopo Coal Company (Pty) Ltd	20%	-	\$13,558,058	-
<b>2009</b>				
Regulus Investments (Pty) Ltd	26%	\$1,978,750	-	-
Harrisia Investments (Pty) Ltd	100%	\$149	-	-
Fumaria Property Holdings (Pty) Ltd	100%	\$155	-	-
Coal of Africa & ArcelorMittal Analytical Laboratories (Pty) Ltd	100%	\$1,049	-	-
Coal of Madagascar Ltd	50%	\$1,771,997	-	-
Coal mining Madagascar SARL**	49%	-	-	-
Pan Africa Drilling Ltd	100%	\$3	-	-
Drilling & Geological Services of Madagascar Ltd***	100%	-	-	-
Palladino Holdings Ltd	30%	\$7,743,534	-	-
Massabi Coal (Private) Ltd****	30%	-	-	-

\* Companies forming part of the acquisition of NuCoal Mining (Pty) Ltd

\*\* Wholly owned subsidiary of Coal of Madagascar Ltd

\*\*\* Wholly owned subsidiary of Pan Africa Drilling Ltd

\*\*\*\* Wholly owned subsidiary of Coal of Palladino Holdings Ltd

## Notes to and forming part of the Financial Statements (continued)

## 30. SEGMENT INFORMATION

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment results, asset and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprises interest or dividend-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

## BUSINESS SEGMENTS

The Consolidated Entity comprises the following main business segments:

Manufacturing	Mineral processing by NiMag in South Africa
Investing	Equity investments in Australia, South Africa and the United Kingdom
Coal exploration & mining	Coal projects in South Africa, Zimbabwe and Madagascar

	COAL MINING & EXPLORATION \$	MANUFACTURING \$	INVESTING \$	CONSOLIDATED \$
<b>Revenue – 2010</b>				
External sales	85,378,739	24,842,345	-	110,221,084
Interest revenue	1,465,609	4,147	1,306,952	2,776,708
Other revenue	95,312	199,797	492,620	787,729
Total group revenue	86,939,660	25,046,289	1,799,572	113,785,521
Segment net profit/ (loss) before income tax	(38,611,123)	3,504,542	20,583,305	(14,523,276)

## Amounts not included in segment result but reviewed by the Board - 2010

Impairment of financial assets	-	-	(10,465,095)	(10,465,095)
Impairment of Mooiplaats	-	-	(52,779,745)	(52,779,745)
Depreciation	(15,743,867)	(229,956)	(11,794)	(15,985,617)
Amortisation	-	-	(14,995,078)	(14,995,078)
Foreign exchange gains	360,128	(111,551)	3,094,633	3,343,210
Impairment of assets held for sale	-	-	(8,386,435)	(8,386,435)
Net profit/ (loss) before tax from continuing operations	(53,994,862)	3,163,035	(62,960,209)	(113,792,036)

## Revenue – 2009

External sales	-	22,214,112	-	22,214,112
Interest revenue	842,313	56,753	12,650,896	13,549,962
Other revenue	-	-	-	-
Total group revenue	842,313	22,270,865	12,650,896	35,764,074
Segment net profit/ (loss) before income tax	(17,441,924)	(4,384,501)	13,068,851	(8,757,573)

## Amounts not included in segment result but reviewed by the Board – 2009

Impairment of financial assets	-	-	(3,457,075)	(3,457,075)
Impairment of Mooiplaats	-	-	-	-
Depreciation	(3,711,231)	(199,412)	(72,201)	(3,982,844)
Amortisation	-	-	-	-
Foreign exchange losses	1,847,926	1,847,926	(1,702,260)	1,993,591
Impairment of assets held for sale	-	-	-	-
Net profit/ (loss) before tax from continuing operations	(19,305,229)	(2,735,987)	7,837,315	(14,203,901)

	COAL MINING & EXPLORATION \$	MANUFACTURING \$	INVESTING \$	CONSOLIDATED \$
<b>Assets as at 30 June 2010</b>				
Segment assets	154,873,062	11,946,584	596,202,841	763,022,487
Segment asset increases for the period:				
- Capital expenditure	51,735,695	613,156	44,060	52,395,911
- Acquisitions	59,313,218	-	92,609,240	151,922,458
	111,048,913	613,156	92,653,300	204,315,369
<i>Reconciliation of segment assets to group assets</i>				
Unallocated assets:				
- Deferred tax assets				12,208,693
- Intangibles				3,540,213
<b>Total assets from continuing operations</b>				<b>778,771,393</b>
<b>Assets as at 30 June 2009</b>				
Segment assets	311,172,800	6,446,064	216,288,711	533,907,575
Segment asset increases for the period:				
- Capital expenditure	92,436,383	-	-	92,436,383
- Acquisitions	7,743,534	-	11,704,052	19,447,586
	100,179,917	-	11,704,052	111,883,969
<i>Reconciliation of segment assets to group assets:</i>				
Unallocated assets:				
- Deferred tax assets				53,526
- Intangibles				3,706,781
<b>Total assets from continuing operations</b>				<b>537,667,882</b>
<b>SEGMENT LIABILITIES</b>				
<b>Segment liabilities as at 30 June 2010</b>				
	110,441,582	3,401,521	5,183,007	119,026,111
<i>Reconciliation of segment liabilities to group liabilities</i>				
Unallocated liabilities:				
- Deferred tax liabilities				33,327,021
- Other liabilities				-
<b>Total liabilities from continuing operations</b>				<b>152,353,131</b>
<b>Segment liabilities as at 30 June 2009</b>				
	7,289,273	2,152,484	4,586,090	14,027,847
<i>Reconciliation of segment liabilities to group liabilities</i>				
Unallocated liabilities:				
- Deferred tax liabilities				0
- Other liabilities				0
<b>Total liabilities from continuing operations</b>				<b>14,027,847</b>

## Notes to and forming part of the Financial Statements (continued)

**30. SEGMENT INFORMATION (continued)****GEOGRAPHICAL SEGMENTS**

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of income generated from equity investments. Segment assets are based on the geographical location of the assets.

The Consolidated Entity has equity interests in an exploration and mining companies listed in the United Kingdom, unlisted exploration companies in Guernsey, one listed and one unlisted manufacturing company and unlisted exploration companies as well as a mining company in South Africa and a biotechnology company listed in Australia.

**Revenue by geographical region**

Revenue attributable to external customers is disclosed below, based on the location of the external customer.

	FOR THE 12 MONTHS ENDED 30 JUNE 2010 \$	FOR THE 12 MONTHS ENDED 30 JUNE 2009 \$
North America	5,704,560	2,864,436
Europe	8,166,025	9,645,031
South East Asia and Australasia	4,463,833	18,927,145
Africa and other areas	95,451,103	4,327,462
<b>Total revenue</b>	<b>113,785,521</b>	<b>35,764,074</b>

**Major customers**

The consolidated entity has no major customers in the coal mining or manufacturing segments which account for more than 10% of the external revenue.

**Assets by geographical region**

The location of segment assets is disclosed below, based on the geographical location of the assets.

	BALANCE AT 30 JUNE 2010 \$	BALANCE AT 30 JUNE 2009 \$
Europe	1,845,506	30,560
South East Asia and Australasia	72,993,049	204,900,764
Africa and other areas	703,932,838	332,736,558
<b>Total assets</b>	<b>778,771,393</b>	<b>537,667,882</b>

**31. SUBSEQUENT EVENTS****PRE-COMPLIANCE NOTICES REGARDING THE VELE COLLIERY**

During August, CoAL responded to a press article published by Reuters on 30 July 2010 regarding comments made by the South African Minister of Water and Environmental Affairs, Ms Buyelwa Sonjica, relating to its Vele Colliery.

On 2 August 2010, the Company stated that all activities undertaken at the Vele Colliery had been carried out in accordance with the NOMR granted for the Vele Colliery and the Company had not undertaken any activities for which authorisation had not been given. The NOMR, which was executed on 19 March 2010, together with the approved EMP in respect of the Vele Colliery, as well as the rights afforded the Company under the MPRDA permitted it to start development activities on site.

The Company acknowledged that on 7 April 2010, the South African Department of Environmental Affairs ("DEA") refused CoAL authorisation to build an access road on one of the CoAL owned Vele farms, Erfrust 123 MS, adjoining the Vele Colliery mining right area and to construct above ground bulk fuel storage facilities. CoAL has appealed these decisions and clarified that it has not and will not start construction of this access road on Erfrust or storage facilities until the required approvals have been received. Although the proposed access road does not prevent the Vele Colliery from operating, it would considerably shorten the distance from the mine site to the main road.

CoAL sought these additional authorisations in accordance with the requirements of the South African National Environmental Management Act, Act No. 107 of 1998 ("NEMA"). The requirement to approve these additional activities are listed under NEMA, but not directly related to the authorised mining operations. The Company has been served with two pre-compliance notices ("Compliance Notice") from the DEA alleging various matters, including that the Vele Colliery has proceeded with the construction of the access road and storage facilities. As stated above, the Company has not undertaken any activities for which authority has not been granted.

The Company still awaits approval of its application for an Integrated Water Use License ("IWUL") for the Vele Colliery which was submitted to the South African Department of Water Affairs ("DWAF") on 10 November 2009. CoAL is liaising with the relevant authorities on an ongoing basis to enable the granting of the IWUL, which is required before the Company can commence any mining or processing activities at the Vele Colliery. However the IWUL is not required for the development activities which have been carried out to date.

On 1 September 2010 the Company disclosed that it had held several constructive meetings with the DEA, including the Director General. CoAL has adhered to the Compliance Notice issued by the DEA and is in the process of submitting rectification applications in terms of section 24G of NEMA to continue with the activities. The Company has also applied to the Minister for the suspension of the Compliance Notice during this process.

The Company has also applied to DWAF regarding the directive requesting the cessation of related specific activities pending the issue of the IWUL. As required in the directive, an Independent Environmental Assessment Practitioner has been appointed to assess the current and proposed activities in conjunction with the IWUL process with respect to the impact on the risks to the water source.

CoAL has made significant progress in satisfying the technical requirements raised by the Department and the Company is confident that with continued liaison between itself, the DEA and DWAF, the issues will be satisfactorily resolved. The timelines required to complete the processes have resulted in the Company having no choice but to reduce the workforce at the Vele Colliery by 596 people. The Company expects to re-commence production in late 2010.

#### **APPOINTMENT OF A SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR**

On 8 September 2010, the Company announced that it has appointed Mr David Murray as Senior Independent Non-Executive Director of the Company, effective immediately. Mr Murray has held a number of senior positions in the global coal industry,

including Managing Director of Ingwe Coal Corporation (formerly Trans-Natal Coal Corporation Limited), Chief Executive of BHP Billiton Mitsubishi Alliance and President of Energy Coal Sector Group at BHP Billiton Limited ("BHP Billiton"), a position he held until December 2009.

Mr Murray holds a Bachelor of Science Degree (Civil Engineering) from the University of KwaZulu-Natal 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.

As part of his package, and subject to shareholder approval, Mr Murray (or his nominee/s) will be entitled to receive 2,500,000 unlisted 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.

#### **APPROVAL RECEIVED FOR THE RIO TINTO FARM SWAP**

As announced on 13 September 2010, Coal received confirmation from the DMR that the application for Ministerial consent in terms of the MPRDA to effect the Exchange of Prospecting Rights Agreement ("Rio Farm Swap Agreement") with Kwezi Mining and Exploration (Proprietary) Limited ("Kwezi") and Chapudi Coal (Proprietary) Limited ("Chapudi"), joint venture companies held by the Rio Tinto Group and the Kwezi Group of South Africa ("Section 201 Application") was granted by the DMR.

This rationalisation of the farms owned by Chapudi, Kwezi and CoAL provides significant benefits to all parties in terms of creating numerous contiguous, well defined and economic coal projects and allows CoAL to lodge a NOMR application for the Company's flagship Makhado Project. The NOMR application is expected to be lodged before the end of the calendar year, followed closely by an application for an IWUL and further relevant approvals, as required.

The Rio Farm Swap Agreement creates another three significant coal projects around the Makhado Project, namely the Mount Stuart coking coal project, the Voorburg coking coal project and the Jutland coking coal project, together with an additional two farms which will form a natural extension to Makhado.

#### **Mount Stuart coking coal project**

This project comprises the farms Mount Stuart, Ter Blanche, Septimus, Schuifdrift, Riet, Stayt and Nakab and was subject to an intensive drilling program by Iscor in the early 1980's with some 318 boreholes drilled on the three farms, Mount Stuart, Ter Blanche and Septimus; and 13 boreholes on the remaining farms. The historical borehole information is currently undergoing a validation process with the information having been sourced from the South African Council for Geoscience. This compares to the 351 boreholes that were drilled by Iscor on the seven Makhado farms, including the two farm extension to the east.



## Notes to and forming part of the Financial Statements (continued)

## 31. SUBSEQUENT EVENTS (continued)

The historical data indicates that there is a substantial area of open castable coal with a general dip at less than 8° to the North, North-West and of a size and quality similar to that at Makhado. Interestingly, the yields of coking coal appear to be significantly higher than those at Makhado, thereby providing an exciting opportunity to create a meaningful addition to CoAL's coking coal portfolio. The Company intends on undertaking an extensive drilling program in order to validate the historical borehole information and in the process, generate a Australasian Joint Ore Reserves Committee ("JORC")/ South African Code for Reporting of Exploration Results, Mineral Resources and Mineral Reserves ("SAMREC") compliant resource.

**Voorburg coking coal project**

The project comprises the farms Voorburg, Cavan and Ancaster. The area has 44 historical boreholes drilled by Iscor in the early 1980's and was the subject of a detailed internal pre-feasibility study. CoAL is currently assessing this historical data and will provide to the market in due course, where material. CoAL has drilled 10 additional boreholes on the farm Voorburg to validate some of the older boreholes and to confirm the coal horizon correlations with success. The coal dips to the North, North-West at approximately 4°. The old Fuel Research Institute performed detailed work on the coal in 1942, on the old Lilliput mine shaft (established 1910) on the farm Cavan. The conclusions indicated that "The very strongly developed coking propensity is an outstanding characteristic of this coal". CoAL is having the 10 boreholes analysed with a view to providing a JORC/SAMREC compliant resource.

**Jutland coking coal project**

The project comprises the farms Jutland, Cohen, Stubbs and Mons. This area was drilled by Iscor in the early 1980's and was the subject of a detailed internal pre-feasibility study. Some 80 boreholes were drilled in the area and this historical borehole information is currently being sourced from the South African Council for Geoscience. The internal report studied different mining methods and targeted the middle lower and bottom upper coal seams. The coal dips to the North, North-West at 5° and suggested reasonable yields from the two seams and a potential life span of greater than 20 years. As with the Mount Stuart and Voorburg coking coal projects, CoAL intends to formulate a drilling program aimed at both validating the historical borehole information and defining a JORC/SAMREC compliant resource.

## PARENT ENTITY

2010  
\$

2009  
\$

## 32. PARENT ENTITY FINANCIAL INFORMATION

**Summary financial information**

Current assets	72,942,803	92,046,237
Total assets	720,142,016	551,550,190
Current liabilities	38,304,040	4,586,016
Total liabilities	38,304,040	10,256,433
Net assets	681,837,975	541,293,757
<i>Shareholders Equity</i>		
Contributed equity	778,046,671	569,267,119
Reserves	9,890,918	9,013,216
Accumulated losses	(106,099,614)	(36,986,578)
	681,837,975	541,293,757
Profit/ (loss) for the year	(69,113,036)	13,579,359
Total comprehensive income	(69,113,036)	13,579,359

**Contractual commitments for the acquisition of property, plant and equipment**

As at 30 June 2010, the Parent Entity had no contractual commitments for the acquisition of property, plant or equipment.

**Guarantees and contingent liabilities**

As at 30 June 2010, apart from guarantees provided to subsidiary entities in the normal course of business, the Parent Entity has no guarantees or contingent liabilities. Contingent liabilities pertaining to the Group are disclosed in Note 26.

**33. COMPANY DETAILS**

The registered office of the Company is:

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

The principal places of business are:

Coal of Africa Limited  
Second Floor  
The Gabba  
The Campus  
57 Sloane Street  
Bryanston 2059  
South Africa

Portion 33  
Farm Steenkoppies  
Rustenburg Road  
Magaliesburg  
South Africa

## DIRECTORS' DECLARATION

In the opinion of the Directors of Coal of Africa Limited (the "Company"):

1. the financial statements and notes and the remuneration disclosures that are contained in the Directors' Report, are in accordance with the Corporations Act 2001, including:
  - a. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - b. giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date.
2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2010.
4. Note 1 confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Board of Directors.

Dated at Perth, Australia this 30th day of September 2010.



**Simon Farrell**

*Executive Deputy Chairman*

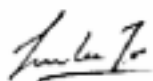
## AUDITOR'S INDEPENDENCE DECLARATION

**MOORE STEPHENS**  
ACCOUNTANTS & ADVISORS

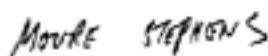
**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF COAL OF AFRICA LIMITED AND CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2010 there have been:

- i. No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii. No contraventions of any applicable code of professional conduct in relation to the audit.



SUAN-LEE TAN  
PARTNER



MOORE STEPHENS  
CHARTERED ACCOUNTANTS

Signed at Perth this 30th day of September 2010.

Moore Stephens Perth ABN 75 368 525 284  
Level 3, 12 St Georges Terrace Perth, Western Australia 6000  
Telephone +61 8 9225 5355 Facsimile +61 8 9225 6181  
Email [perth@moorestephens.com.au](mailto:perth@moorestephens.com.au) Website [www.moorestephens.com.au](http://www.moorestephens.com.au)  
*A member of the Moore Stephens International Limited Group of Independent Firms*

*Liability limited by a scheme approved under Professional Standards Legislation*

## INDEPENDENT AUDITOR'S REPORT

**MOORE STEPHENS**  
ACCOUNTANTS & ADVISORS

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COAL OF AFRICA LIMITED

## REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Coal of Africa Limited ("the Company") which comprises the consolidated statement of financial position as at 30 June 2010, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration. The Group or consolidated entity comprises both the Company and the entities it controlled at the year's end or from time to time during the financial year.

## Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

## Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Coal of Africa Limited, would be in the same terms if provided to the directors as at the date of this auditor's report

## Auditor's Opinion

In our opinion:

- a. the financial report of Coal of Africa Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Moore Stephens Perth ABN 75 368 525 284  
Level 3, 12 St Georges Terrace Perth, Western Australia 6000  
Telephone +61 8 9225 5355 Facsimile +61 8 9225 6181  
Email perth@moorestephens.com.au Website www.moorestephens.com.au  
A member of the Moore Stephens International Limited Group of Independent Firms

Liability limited by a scheme approved under Professional Standards Legislation

**REPORT ON THE REMUNERATION REPORT**

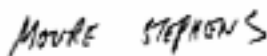
We have audited the Remuneration Report as included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's Opinion**

In our opinion, the Remuneration Report of Coal of Africa Limited for the year ended 30 June 2010 complies with Section 300A of the *Corporations Act 2001*.



SUAN-LEE TAN  
PARTNER



MOORE STEPHENS  
CHARTERED ACCOUNTANTS

Signed at Perth this 30th day of September 2010.



## TENEMENT SCHEDULE

## TENEMENTS HELD BY CONTROLLED ENTITIES:

PROJECT NAME	TENEMENT NUMBER	INTEREST
Kanowna West*	M27/41	23.68%
	M27/47	23.68%
	M27/59	23.68%
	M27/72,27/73	23.68%
	M27/114	23.68%
	M27/181	21.31%
	M27/196	23.68%
	M27/414,27/415	23.68%
	P27/1826-1829	23.68%
	P27/1830-1842	23.68%
	P27/1887	23.68%
Abbotshall Royalty	ML63/409,410	Royalty
Kookynie Royalty	ML40/061	Royalty
	ML40/135,136	Royalty
Holfontein	Remaining extent, Remaining Extent of portions 1, 5 and 11 and portions 4, 6, 9, 10, 12 and 13 of the farm Holfontein 138 IS	100%
Makhado (previously Baobab)	Albert 686 MS	100%
	Ancaster 501 MS	100%
	Bekaf 650 MS	100%
	Castle Koppies 652 MS	100%
	Cavan 508 MS	100%
	Chase 576 MS	100%
	Cohen 591 MS	100%
	Enfield 521 MS	100%
	Fanie 578 MS	100%
	Fripp 645 MS	100%
	Jaffre 584 MS	100%
	Jutland 536 MS	100%
	Kleinenberg 636 MS	100%
	Tanga 648 MS	100%
	Voorburg 503 MS	100%
	Wildgoose 577 MS	100%
	Stayt 183 MT	100%
	Riet 182 MT	100%
	Salaita 188 MT	100%
	Telema 190 MT	100%
	Vleifontein 691 MS	100%
	Rissik 637 MS	100%
	Stubbs 558 MS	100%
	Mons 537 MS	100%

PROJECT NAME	TENEMENT NUMBER	INTEREST
Mooiplaats	Portions 1, 9,14,17,18,19,20 of Mooiplaats 290 IT	100%
	Portion 2, 3 and Remaining Extent of Klipbank 295 IT	100%
	Portions 1, 2 and Remaining Extent of Adrianople 296 IT	100%
	Portions 2 & 3 of Willemsdal 330 IT	100%
	Portions 2, 3, 4 & Remaining Extent) of De Emigratie 327 IT	100%
	Portions 2, 5, 8,10 & 13 of Buhrmansvallei 297 IT	100%
	Various portions of Klipfontein 442 IS	100%
Vele (previously Thuli)	Portions of Overvlakte 125 MS (Remaining Extent, 3, 4, 5, 6, 13, 14) Bergen Op Zoom 124 MS	100%
	Simple 155 MS	100%
	Voorspoed 836 MS	100%
	Alyth 837 MS	100%
	Lizzuela 62 MS	100%
	Patracia 65 MS	100%
	Hacyon 69 MS	100%
Madagascar	Licence number 3196 (3 blocks)	50%
	Licence number 4578 (4 blocks)	50%
	Licence number 12653 (4 blocks)	50%
	Licence number 31892 (4 blocks)	50%
	Licence number 31808 (10 blocks)	50%
Klipbank	Portions 15,16,17 and Mineral area 1 of Klipbank 467 JS	100%
	Portion 1 of the farm Sterkwater 317 JS	100%
Op Godengoepe	Portion 5 of Op Goedenhoep 205 IS	100%
Zonnebloem	Remaining Extent of Portion 2 and Portion 5 of Zonnebloem 396 JS	49%
Haartogshoop	Remaining Extent of the farm Hartogshoop 410 JS	100%
Woestaleen	Remaining Extent of the farm Wostaleen 477 JS	100%
	Portion 2 of the farm De Groote	100%
	Rietpan 479 JS	100%
	Remaining Extent and Portion 4 Of the farm Noodhulp 474 JS	100%

PROJECT NAME	TENEMENT NUMBER	INTEREST
Makhado C BM	Windhoek 649 MS	100%
	Tanga 648 MS	100%
	Fripp 645 MS	100%
	Lukin 643 MS	100%
	Salaita 188 MT	100%
	The Duel 186 MT	100%
	Telema 190 MT	100%
	Gray 189 MT	100%
	Martha 185 MT	100%
	Joffre 584 MS	100%
	Fanie 578 MS	100%
	Phantom 640 MS	100%
	Wildgoose 577 MS	100%
	Van Deventer 641 MS	100%
	Chase 576 MS	100%
	Stoyt 183 MT	100%
	Nakab 184 MT	100%
	Riet 182 MT	100%
	Schuitdrift 179 MT	100%
	Mount Stuart 153 MT	100%
	Terblache 155 MT	100%
	Meteor 141 MT	100%
	Naus 178 MT	100%
	Alicedale 138 MT	100%
	Septimus 156 MT	100%
	Martin 157 MT	100%
	Rynie 158 MT	100%
	Portion of Unsurveyed state land	100%

\* These tenements are the subject of a joint venture (JV) arrangement with Barrick (PD) Australia Limited whereby Barrick have the right to earn a maximum of 60% interest having met certain criteria. This would have the effect of reducing CoAL's interest to a fully diluted position of 9.47% in respect to the Kanowna West JV and 8.52% in respect to the Kalbara JV.

## SHAREHOLDER INFORMATION

Unless otherwise stated, the following additional information is current as at 15 September 2010.

### DISTRIBUTION SCHEDULES

#### SHARES: ORDINARY FULLY PAID

RANGE	HOLDERS	UNITS	%
1 - 1,000	585	253,434	0.05
1,001 - 5,000	644	1,802,367	0.34
5,001 - 10,000	276	2,231,175	0.42
10,001 - 100,000	309	8,623,471	1.63
100,001 - Over	37	517,604,216	97.57
Total	1,851	530,514,663	100.00

#### UNLISTED OPTIONS: 30 SEPTEMBER 2011 @ \$0.50

RANGE	HOLDERS	UNITS	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 - Over	9	9,074,998	100.00
Total	9	9,074,998	100.00

The following hold 20% or more of the Options in this class:

Mr Simon Farrell	4,000,000
Terra Africa Investments Pty Ltd	2,000,000

#### UNLISTED OPTIONS: 1 MAY 2012 @ \$1.25

RANGE	HOLDERS	UNITS	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 - Over	3	600,000	100.00
Total	3	600,000	100.00

The following hold 20% or more of the Options in this class:

Mr Isaac Thulani Maupa	200,000
Mr Kobela Charles Mafiri	200,000
Mr Lemogang Alvin Pitsoe	200,000

**UNLISTED OPTIONS: 1 MAY 2012 @ \$2.05**

RANGE	HOLDERS	UNITS	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 - Over	1	250,000	100.00
Total	1	250,000	100.00

The following hold 20% or more of the Options in this class:

Mr Colin Gordon 250,000

**UNLISTED OPTIONS: 30 SEPTEMBER 2012 @ \$1.90**

RANGE	HOLDERS	UNITS	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 - Over	1	1,000,000	100.00
Total	1	1,000,000	100.00

The following hold 20% or more of the Options in this class:

Mr Blair Sergeant & Bronwyn Gaye Lukic

<Rio Grande Do Norte Super Fund A/C> 1,000,000

**UNLISTED OPTIONS: 30 SEPTEMBER 2012 @ \$1.25**

RANGE	HOLDERS	UNITS	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 - Over	2	7,000,000	100.00
Total	2	7,000,000	100.00

The following hold 20% or more of the Options in this class:

Mr Simon Farrell 5,000,000

Mr Richard Linnell 2,000,000

## Shareholder Information (continued)

## DISTRIBUTION SCHEDULES (CONTINUED)

## UNLISTED OPTIONS: 31 JULY 2012 @ \$3.25

RANGE	HOLDERS	UNITS	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 - Over	1	1,650,000	100.00
Total	1	1,650,000	100.00

The following hold 20% or more of the Options in this class:

Mr Adriaan Jacobus van der Merwe 1,650,000

## UNLISTED OPTIONS: 30 NOVEMBER 2014 @ \$2.74

RANGE	HOLDERS	UNITS	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 - Over	2	5,000,000	100.00
Total	2	5,000,000	100.00

The following hold 20% or more of the Options in this class:

Mr Simon Farrell 3,000,000

Mr Blair Sergeant 2,000,000

## UNLISTED OPTIONS: 30 JUNE 2014 @ R12.50

RANGE	HOLDERS	UNITS	%
1 - 1,000	-	-	-
1,001 - 5,000	7	24,000	2.63
5,001 - 10,000	1	6,500	0.71
10,001 - 100,000	11	274,500	30.08
100,001 - Over	3	607,500	66.58
Total	22	912,500	100.00

The following hold 20% or more of the Options in this class:

Mr Adriaan Jacobus van der Merwe 272,500

Mr Willem Johannes Hattingh 210,000

## UNMARKETABLE PARCELS

The number of holdings of less than a marketable parcel of ordinary shares (being 329 ordinary shares) equals 26,079 units held by 264 holders.

## RESTRICTED SECURITIES

The Company currently has no restricted securities.

## SUBSTANTIAL SHAREHOLDERS

The names of the substantial shareholders that have provided the Company with substantial shareholding notices as at 15 September 2010 are:

SHAREHOLDER	# OF SHARES	% INTEREST
African Global Capital Holdings Ltd	74,453,512	14.03
BlackRock Investment Management (Australia) Limited and associated entities (BlackRock Group)	34,341,326	6.47
The Capital Group Companies Inc	27,975,000	5.27

## VOTING RIGHTS

Voting rights attached to ordinary shares are that upon poll, each share shall have one vote, and on show of hands every member present in person or by proxy shall have one vote.

Option holders are not entitled to vote.

## TOP HOLDERS

The 20 largest registered holders of each class of quoted securities as at 23 September 2010 were:

### FULLY PAID ORDINARY SHARES

NAME	NO. OF SHARES	%
ARCELORMITTAL SOUTH AFRICA LTD	84,801,192	15.98
NORTRUST NOMINEES LIMITED <MKK01>	55,500,000	10.46
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – GSCO ECA	37,824,890	7.13
STATE STREET NOMINEES LIMITED <OM02>	37,256,580	7.02
STANDARD BANK NOMINEES (TRANVAAL)	33,810,512	6.37
GREENWOOD NOMINEES LIMITED <297180>	18,395,016	3.47
NATIONAL NOMINEES LIMITED	15,870,120	2.99
NUTRACO NOMINEES LIMITED <781221>	14,000,000	2.64
J P MORGAN NOMINEES AUSTRALIA LIMITED	12,951,226	2.44
BBHISL NOMINEES LIMITED <121498>	10,780,700	2.03
EUROCLEAR NOMINEES LIMITED <EOC01>	9,641,566	1.82
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,566,949	1.80
PRUDENTIAL CLIENT HSBC GIS NOMINEE (UK) LIMITED <PPL>	7,647,189	1.44
NORTRUST NOMINEES LIMITED <SKAGENKT>	7,377,265	1.39
CHASE NOMINEES LIMITED	5,681,805	1.07
JANNIE ABRAHAM NEL	5,000,000	0.94
THE BANK OF NEW YORK (NOMINEES) LIMITED	4,854,346	0.92
CHASE NOMINEES LIMITED <OPPLEND>	4,756,189	0.90
BNS NOMINEES (PTY) LTD	4,625,750	0.87
LYNCHWOOD NOMINEES LIMITED <2006420>	4,404,377	0.83
	384,745,672	72.52



THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY



COAL *of* AFRICA LIMITED



COAL of AFRICA LIMITED