



## ANNOUNCEMENT

31 JANUARY 2011

### REPORT FOR THE QUARTER ENDED 31 DECEMBER 2010

Coal of Africa Limited ("CoAL" or "the Company") provides its operational report for the quarter ended 31 December 2010. A copy of this report is available on the Company's website, [www.coalofafrica.com](http://www.coalofafrica.com)

#### Highlights

- The Company entered into an agreement with Rio Tinto to acquire the Chapudi Coal Project and several other coal exploration properties ("Related Exploration Properties") for US\$75 million.
- The Chapudi Coal Project has an estimated 1.040 million tonne ("Mt") resource (of which 90Mt is Measured, 220Mt Indicated and 730Mt Inferred, as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves' ("JORC Code")) and is contiguous with CoAL's Makhado coking coal Project ("Makhado Project").
- Substantial progress made on the Definitive Feasibility Study ("DFS") for the Makhado Project.
- Extraction of over 269,300 bank cubic metres ("bcm") of material for the Makhado Project bulk sample during the quarter.
- 954,915 tonnes of run of mine ("ROM") and 686,403 tonnes of export quality coal produced at the Woestalleen and Mooiplaats thermal collieries.
- Cash balance at the end of the quarter of A\$23 million.

Commenting on the results today, John Wallington, Chief Executive Officer of CoAL said: "The Company continues to work closely with various government departments to resolve the challenges at the Vele Colliery. Interactions to date included a constructive site visit by the United Nations Educational Scientific and Cultural Organization ("UNESCO") and senior government officials from the Departments of Mineral Resources ("DMR") and Environmental Affairs ("DEA"), to assess the co-existence of the Vele Colliery with the Mapungupwe World Heritage Site. Whilst the Company awaits UNESCO's feedback, management remains confident that any issues identified can be satisfactorily resolved allowing for the commencement of operations at the colliery in early 2011."

"CoAL has committed itself to complying with enacted as well as any future legislative requirements. While seasonal rainfall reduced production at our Woestalleen mines, production at the Mooiplaats thermal coal project ("Mooiplaats Colliery") increased slightly and further development work and the commissioning of an additional section is expected to result in a steady rise in production. The acquisition of Rio Tinto's tenements in the vicinity of CoAL's Makhado Project will position the Company as the majority resource owner in South Africa's only known coking coal area, in an environment of rising global coal prices."

## **QUARTERLY COMMENTARY**

### **Woestalleen Mines and Processing Plant – Witbank Coalfield (100%)**

The Zonnebloem operation continued its impeccable safety record, with the site not recording a single lost time injury since start-up in 2008.

Production at Woestalleen's open cast mines was adversely affected by seasonal rainfall, resulting in the production of 761,393 tonnes (Q1: 930,840 tonnes) of ROM coal during the quarter. The Zonnebloem mine produced 639,087 tonnes (Q1: 750,130 tonnes), a further 12,516 tonnes were produced at Klipbank (Q1: 25,968 tonnes) and 109,790 tonnes at Hartogshoop (Q1: 154,742 tonnes). The ROM coal was processed at the Woestalleen processing facility, producing 500,940 tonnes (Q1: 447,117 tonnes) of export quality coal and 97,368 tonnes (Q1: 104,082 tonnes) for sale to the domestic market.

During the quarter, 78,886 tonnes of lower grade middlings were sold to Eskom, the South African electricity generator, (Q1: 115,141 tonnes) and 504,731 tonnes (Q1: 560,036 tonnes) of export quality coal was sold.

### **Mooiplaats Colliery – Ermelo Coalfield (100%)**

Safety programmes continued at the Mooiplaats Colliery during the quarter and no lost time incidents were recorded.

Production increased to 193,522 tonnes of ROM coal compared to 182,230 tonnes during the previous quarter. The increase is attributable to the addition of a fourth underground section during October 2010.

The 355,698 tonnes of ROM coal processed during the three months included 162,146 tonnes (Q1: 154,957 tonnes) of purchased coal and yielded 185,463 tonnes (Q1: 197,690 tonnes) of export quality coal and 67,758 tonnes (Q1: 55,870 tonnes) of middlings product for Eskom. Extensive development was conducted during the period to create the necessary pit room facilitating increased production and a rise in output per section is currently being achieved.

Port expansion and upgrade related delays and a derailment affected the railing of coal to the Matola Terminal in Maputo, Mozambique ("Matola Terminal") and during the three months, 192,945 tonnes of export quality coal was railed to the port (Q1: 172,022 tonnes).

58,350 tonnes (Q1: 83,167 tonnes) were sold to Eskom's Camden Power Station during the three months and 170,776 tonnes (Q1: 181,342 tonnes) of Mooiplaats and Woestalleen coal exported from the Matola Terminal.

Development of the fourth section at the Mooiplaats Colliery was completed during the quarter. Management has decided to commence the deployment of the fifth section after production from the current four sections has been optimised and sufficient pit room established. Further investment

decisions will be undertaken following confirmation of increased rail capacity from Transnet Freight Rail.

At the end of October 2010, a Pre-Compliance Notice pertaining to the Mooiplaats Project was issued. CoAL representatives met with the Mpumalanga Department of Economic Development, Environment and Tourism shortly thereafter and subsequently the Pre-Compliance Notice was withdrawn. No Compliance Notice was ever issued to the Company nor was the Company ever required to cease operations at Mooiplaats. Progress continued to be made in this regard between the relevant officials at the mine and Provincial Departments.

#### **Vele Coking Coal Project – Tuli Coal Field (100%)**

As announced at the end of the September quarter, the development phase of the Vele coking coal project (“Vele Colliery”) comprising the construction of the open cast mining pit, processing plant and related mining infrastructure is near completion. No construction or mining activity was undertaken at the Vele Colliery during the reporting period as a result of the Compliance Notice served on the Company by the DEA during the previous quarter.

During the quarter, representatives of UNESCO visited the Vele Colliery, together with senior members of the DMR, DEA and CoAL management. The visit was conducted in a positive manner and discussions are ongoing.

The Company continued to interact with DEA representatives during the quarter and submitted the first set of rectification papers in terms of Section 24G of the South African National Environmental Management Amendment Act, 1998 (Act No. 107 of 1998) (“NEMA”). In early January 2011, the Company submitted the second set of NEMA rectification papers.

Pending the granting of the Integrated Water Use Licence (“IWUL”) and favourable rulings in terms of the 24G submissions, mobilisation and construction completion is expected to take up to twelve weeks, followed soon thereafter by production and the first sales of coking coal.

#### **Makhado Coking Coal Project – Soutpansberg Coal Field (100%)**

Significant progress was made during the quarter towards completing the New Order Mining Right (“NOMR”) application for the Makhado Project, resulting in its lodgement with the DMR during the March 2011 quarter. This will be followed closely by application for further regulatory approvals, as required.

Work on the NOMR application included baseline social and environmental studies conducted by independent experts. Consultation with interested and affected parties continued during the quarter and included the establishment of the Makhado Project Community Engagement Forum to formalise engagement with the communities and land claimants affected by the Makhado Project. Once the NOMR application has been accepted by the DMR, extensive economic, social and environmental impact studies will be prepared as part of the process in formulating a detailed Environmental Management Programme.

By the end of the quarter, CoAL had largely completed the DFS for the Makhado Project and the initial results are currently undergoing a review process which the Company expects to complete by

the middle of the March quarter. The detailed design phase of the Makhado Project will commence once the DFS has been finalised and approved by the CoAL Board. The Company anticipates that this will occur by the end of the June quarter and will be followed by the purchase of long-lead time items. These activities are expected to occur whilst CoAL awaits approval from the DMR for the Company's Makhado Project NOMR Application.

As announced previously, the Company has received all required regulatory approvals to extract a bulk sample from the Makhado Project. Progress on the bulk sample continued during the quarter and by the end of the period, over 350,000 bcm's of material had been removed. A 19,000 tonne ROM coal sample will be transported to Exxaro Resources Limited's Tshikondeni Colliery, where it is expected to be beneficiated into approximately 4,400 tonnes of coking coal with an approximate 10% ash content. The Company is confident that analysis and testing will confirm the expected coking qualities. It is estimated that by the end of March 2011, the sample will have been transported to the Tshikondeni Colliery for processing.

The product will then be tested by ArcelorMittal SA in their coking ovens at Vanderbijlpark. The results of these tests are 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.

#### **Acquisition of Rio Tinto's South African Coal Assets**

During November 2010, the Company announced that it entered an agreement to acquire Rio Tinto Minerals Development Limited's Chapudi Coal Project and Related Exploration Properties (collectively, "the Coal Assets"). The Coal Assets are situated in the Soutpansberg Basin and comprise both thermal and coking coal and establish the Company as the dominant coal prospect holder in the Soutpansberg Basin.

The acquisition more than doubles the Company's current Makhado Project resource and provides CoAL with an estimated additional 1.040 million tonne JORC resource. The Chapudi Coal Project is contiguous with the Company's Makhado Project and CoAL will retain properties that were to be exchanged in accordance with the previously announced Rio Farm Swap Agreement.

Separately from the 1.040 million tonne Chapudi Coal Project, all of the farms comprising the Related Exploration Properties are contiguous to one or more of CoAL's existing Voorburg, Jutland, Mt Stuart and Makhado coal projects, significantly expanding both the scale and scope of each of these project areas. CoAL's working knowledge of this area, which has been established during its period of ownership, exploration and resource delineation of the Makhado Project, will aid in further exploring the contiguous areas which it has now acquired.

CoAL intends to develop the coking coal properties and expects to seek either a domestic or export market for the thermal coal. Grindrod, as port sub-concession holder, is currently expanding the export capacity at the Matola Terminal to 6 million tonnes per annum ("Mtpa"), completion of which is expected in the March 2011 quarter and will result in CoAL's allocation increasing from 1Mtpa to 3Mtpa. The Company also has the option to participate in further expansion at the Matola Terminal

which is expected to significantly increase the capacity at the terminal. CoAL's Matola Terminal capacity and scale presence in the Soutpansberg Basin will allow the Company to develop the Maputo logistics corridor and leverage its future production into the export market.

CoAL intends to use the acquisition of the Coal Assets to continue and further build upon its extensive Broad Based Black Economic Empowerment ("BBBEE") initiatives. Specifically, CoAL intends to develop the Chapudi Coal Project and a potential Independent Power Producer project in collaboration with its proposed BBBEE partners, including the local communities and other broad based groupings.

The acquisition consideration payable by CoAL comprises:

- US\$45 million up front consideration in cash, payable on completion of the sale, which remains subject to a number of conditions precedent, including approval in accordance with Section 11 of the Mineral and Petroleum Resources Development Act. CoAL has already provided the Vendors with a US\$2 million cash deposit; and
- US\$30 million deferred cash consideration, payable on the earlier of (i) the granting of a NOMR for any farm or combination of farms that form part of the Coal Assets, or (ii) 24 months from fulfilment of the conditions precedent to the sale.

#### **Polokwane Analytical Laboratory (100%)**

During the quarter, the Polokwane laboratory continued with the analysis of CoAL's Makhado Project exploration samples. The facility received its South African National Accreditation System approval for the majority of the procedures undertaken at the laboratory. The accreditation results in the facility being more marketable and ensures that laboratory results are reliable and accurate.

#### **NiMag Group of Companies (100%)**

The NiMag Group returned a profit for the quarter as a result of increased orders during the three months, stable nickel prices and the consolidation of the Joerg Foundry acquired in the previous quarter. Profitability was however adversely affected by the strengthening of the South African Rand against the United States Dollar.

The investment in the NiMag Group was assessed during the quarter and as a result of it being considered non-core to the CoAL Group, it has been classified as available for sale. The Company has commenced with a formal disposal process.

#### **Holfontein Coal Project (100%)**

The Company continues to classify its Holfontein Project as a non-core asset available for sale. The Company has been tentatively approached by interested parties and, as previously announced, has commenced with a formal disposal process.

## **Madagascar Coal Project (50%)**

CoAL holds a 50% interest in the Imoloto Project located in south west Madagascar which covers approximately 90% of the Imoloto basin. The project comprises 43 blocks, totalling 270 km<sup>2</sup>, as well as a further 90km<sup>2</sup> in 14 blocks in adjacent coal basins. It is intended that the Madagascan asset be listed on the Australian Securities Exchange in the near term.

## **Corporate Activity**

### **Funding options**

The Company held A\$23m of cash at the end of the December 2010 quarter. Operating cash flows were impacted by rail and port performance. Commissioning of the Matola Terminal upgrade is scheduled for completion by the middle of the March 2011 quarter and is expected to result in increased export volumes. Operational cost and cash flow controls have been substantially reviewed and are being significantly strengthened as CoAL transitions to a fully fledged operational and project delivery company. The Company is well advanced in assessing the various financing alternatives available.

### **Appointment of Non-Executive Directors**

As announced in November 2010, Messrs Khomotso Mosehla, Mikki Xayiya and Rudolph Torlage were appointed as Non-Executive Directors to the Board of CoAL.

Authorised by

**JOHN WALLINGTON**

Chief Executive Officer

31 January 2011

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#### **For more information contact**

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

#### **About CoAL:**

CoAL is an AIM/ASX/JSE listed coal mining and development company operating in South Africa. CoAL's key projects include the Woestalleen Colliery, the Mooiplaats thermal coal mine, the Vele coking coal project and the Makhado coking coal project.

The Mooiplaats coal mine commenced production in 2008 and is currently ramping up to produce 2 million tonnes per annum ("Mtpa"). CoAL's Makhado coking coal project is expected to start production in 2013 and timing for Vele to reach production is still to be confirmed. These operations are targeted to collectively produce an initial 2Mtpa ramping up to a combined annual output of 10Mtpa of coking coal.

In 2010, CoAL completed the ZAR467m acquisition of NuCoal Mining (Pty) Limited ("NuCoal"), a thermal coal producer with assets in South Africa in close proximity to CoAL's Mooiplaats mine. NuCoal owns the Woestalleen Colliery, which has a number of off-take contracts in place and processes approximately 2.5Mtpa of saleable coal for domestic and export markets. NuCoal also owns two beneficiation plants, one fully operational mine producing approximately 300kt per month of ROM coal and has recently commenced production at a second mine.

**Resource Estimation:**

The information in this report that relates to the Chapudi Coal Project's estimated 1,040Mt JORC Resource is based on information compiled by Steen Kristensen, who is a member of the Australian Institute of Mining and Metallurgy and who qualifies as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves' ("JORC Code"). Steen is a full-time employee of Rio Tinto Energy and has experience which is relevant to the style of mineralisation and type of deposits under consideration. . Steen Kristensen consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to exploration results, mineral resources or ore reserves in respect of the Makhado coking coal project is based on information compiled by 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 JORC Code. Mark Craig Stewardson is employed by Mineral Corporation Consultancy and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code. Mark Craig Stewardson consents to the inclusion in this announcement of the matters based on his information in the form and context in which it appears.

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# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

Coal of Africa Limited

ABN

98 008 905 388

Quarter ended ("current quarter")

31 December 2010

### Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (6 months) \$A'000
1.1	Receipts from product sales and related debtors	75,286	90,837
1.2	Payments for (a) exploration & evaluation	(1,091)	(1,628)
	(b) development	-	-
	(c) production	(72,526)	(104,147)
	(d) administration	(16,183)	(25,639)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	247	1,156
1.5	Interest and other costs of finance paid	(656)	(699)
1.6	Income taxes paid	(8,156)	(8,156)
1.7	Other (provide details if material)	-	-
<b>Net Operating Cash Flows</b>		<b>(23,078)</b>	<b>(48,276)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a) prospects	44	(1,856)
	(b) equity investments	-	-
	(c) other fixed assets	1,125	(30,069)
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	2,772	2,772
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
<b>Net investing cash flows</b>		<b>3,941</b>	<b>(29,153)</b>
1.13	Total operating and investing cash flows (carried forward)	(19,137)	(77,429)

+ See chapter 19 for defined terms.



**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(19,137)	(77,429)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(818)	(818)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	<b>(818)</b>	<b>(818)</b>
	<b>Net increase (decrease) in cash held</b>	<b>(19,955)</b>	<b>(78,247)</b>
1.20	Cash at beginning of quarter/year to date	42,662	101,063
1.21	Exchange rate adjustments to item 1.20	1,026	917
1.22	<b>Cash at end of quarter</b>	<b>23,733</b>	<b>23,733</b>

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

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	548
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

**Non-cash financing and investing activities**

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

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

+ See chapter 19 for defined terms.

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	19,680	19,680
3.2 Credit standby arrangements	10,733	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	650
4.2 Development	4,212
4.3 Production	57,479
4.4 Administration	4,213
<b>Total</b>	<b>66,554</b>

### Reconciliation of cash

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

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	7,230	12,103
5.2 Deposits at call	16,503	30,559
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>23,733</b>	<b>42,662</b>

+ See chapter 19 for defined terms.

## Changes in interests in mining tenements

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

## Issued and quoted securities at end of current quarter

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

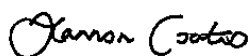
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference securities</b> (description)	Nil			
7.2 Changes during quarter				
7.3 <b>+Ordinary securities</b>	530,514,663	530,514,663		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> (description)	Nil			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> (description and conversion factor)	27,987,499	Nil	Exercise price See Note 6	Expiry date See Note 6
7.8 Issued during quarter	2,500,000	Nil	See Note 6	See Note 6
7.9 Exercised during quarter	Nil	Nil		
7.10 Expired during quarter	Nil	Nil		

+ See chapter 19 for defined terms.

7.11	<b>Debentures</b> (totals only)	Nil	
7.12	<b>Unsecured notes</b> (totals only)	Nil	

## Compliance statement

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



31 January 2011

Sign here: ..... Date: .....  
(Company secretary)

Print name: SHANNON COATES  
.....

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.

6 Issued and Quoted Options as at 31 December 2010:

Number Issued	Number Quoted	Exercise Price	Expiry Date	Lapsed Since End of quarter
9,074,998	-	A\$0.50	30 September 2011	-
7,000,000	-	A\$1.25	30 September 2012	-
250,000	-	A\$2.05	1 May 2012	-
1,000,000	-	A\$1.90	30 September 2012	-
600,000	-	A\$1.25	1 May 2012	-
1,650,000	-	A\$3.25	31 July 2012	-
912,500	-	A\$1.90	30 June 2014	-
5,000,000	-	A\$2.74	30 November 2014	-
2,500,000	-	A\$1.20	9 November 2015	-
1*	-	GBP0.60	1 November 2014	-

\*1 Option to subscribe for 50 million ordinary shares for 60 pence each between 1 November 2010 and 1 November 2014 as approved by shareholders on 22 April 2010

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