



COAL of AFRICA LIMITED

# MAKHADO PROFILE

CREATING SUSTAINABLE VALUE THROUGH MINING FOR ALL STAKEHOLDERS

COAL OF AFRICA'S PROJECTS



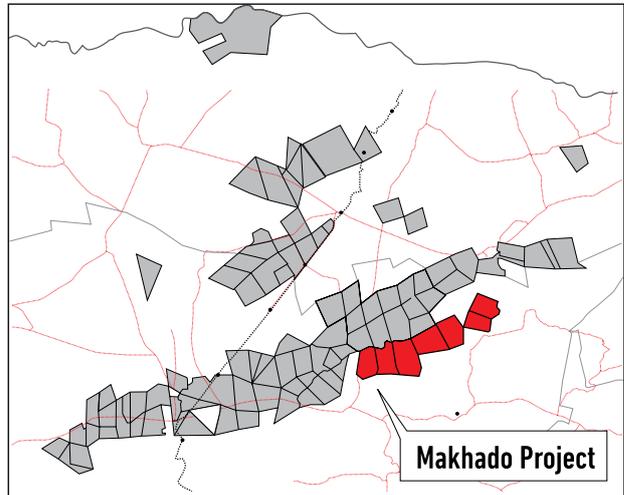
ENHANCING  
SUSTAINABLE  
VALUE  
BY  
FACILITATING  
SOCIO  
ECONOMIC  
TRANSFORMATION



= MINING • ENVIRONMENT • AGRICULTURE • HERITAGE

# MAKHADO PROJECT

**IN MAY 2015, THE DEPARTMENT OF MINERAL RESOURCES GRANTED A NEW ORDER MINING RIGHT (NOMR) FOR THE COMPANY'S FLAGSHIP PROJECT, THE MAKHADO PROJECT, LOCATED IN THE MAKHADO MUNICIPALITY.**



In May 2015, the Department of Mineral Resources granted a New Order Mining Right (NOMR) for the company's flagship project, the Makhado Project, located in the Makhado Municipality. The project represents CoAL's first project within the Soutpansberg Coalfield area, with the potential to deliver significant value to all its stakeholders, including its shareholders, enabling the company to become a significant global coking coal producer.

In June 2013, the company released an independently verified Class II Definitive Feasibility Study, demonstrating the project's ability to produce an annual 2.3Mt of hard coking coal, and 3.2Mt of thermal coal.

The project company DRA Projects South Africa (DRA) was appointed in November 2015 to conduct the Front End Engineering Design (FEED) for the project on behalf of the company.

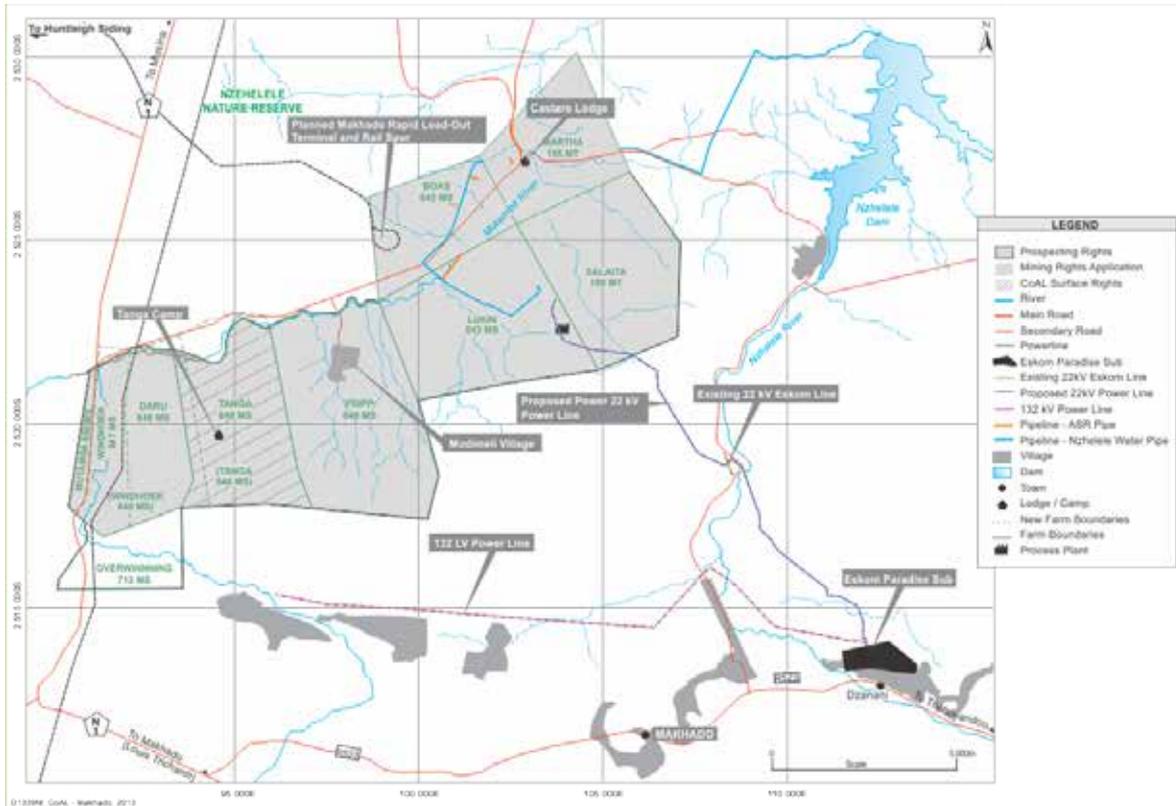


## LOCATION

The Makhado Project is located in the Makhado Municipality, in the magisterial district of Vhembe in the Limpopo Province of South Africa. The nearest town, Makhado (Louis Trichardt) is situated 35 km south of the project area, with Musina town located 50km to the north of the project area.

The project is located on five adjacent farms, Fripp 645 MS, Tanga 648 MS, Windhoek 649 MS, Lukin 643 MS and Salaita 188 MT. These farms all lie parallel to the Soutpansberg Mountain Range. The Mudimeli, Kuvule and Mulambwane communities are located on the Farm Fripp, with adjacent communities of Makushu, Mosholombi and Pfumembe residing on neighbouring farms. The land claimant community of Musekwa is also affected, bringing to seven, the number of beneficiary communities.

# THREE LICENCES HAVE BEEN GRANTED FOR THE PROJECT; THE NEW ORDER MINING RIGHT ENVIRONMENTAL AUTHORISATION, AND THE INTEGRATED WATER USE LICENSE



## RESOURCES

The Makhado Project will produce hard coking and thermal coal through open cast mining. There are currently 172.73 Mt Run of Mine (ROM) reserves in situ which will be mined over the life of mine of 16 years, expected to be mined at an average rate of 12.6Mtpa ROM. There is the potential for expansion underground. The Reserve and Resource statements have been independently reviewed by Venmyn Deloitte.

At steady state production, 2.3mtpa hard coking coal and 3.2mtpa thermal coal will be produced.

## RESOURCE AND RESERVES

Abridged summary of JORC compliant resource & reserve statement - 30 June 2016	JORC compliant resources			JORC compliant reserves
	(measured, indicated and inferred)			(proven and probable)
Project Name (Coalfield)	GTIS (Mt)	TTIS (Mt)	MTIS (Mt)	Reserves (Mt)
Vele (Limpopo)	795.608	691.694	344.766	188.25

# MAKHADO PROJECT



## INFRASTRUCTURE

The Makhado Project benefits from excellent existing infrastructure with respect to rail, road, power and port allocation.

- Electricity supply is being secured from existing Eskom infrastructure
- Accessible via existing road network, the coal will be transported to the domestic and export markets by rail, with access to the national rail network through the construction of a 22km rail loop.



## LOGISTICS

The proposed Makhado logistics solution takes into account environmental and social concerns.

With good access to existing rail and port infrastructure, Makhado's coal will have an advantage in serving both the domestic and international markets.



## REGULATORY STATUS

Two licences have been granted for the project, the Environmental Authorisation and the New Order Mining Right. Ministerial consent was received from the DMR transferring the ownership of the right from CoAL to Baobab Mining and Exploration Limited (BME) which will be the operating entity of the project.

Authorisation	Issuing Authority	Purpose	Duration	Status
Environmental authorisation	LEDET & DMR	Environmental authorisation to undertake mining activities	Life of mine	Received August 2013 Amended, transferred to Baobab Validity extended by 5 years
New Order Mining Right (NOMR)	DMR	Authorisation to mine resources in accordance with an approved mine plan	20 Years	Received May 2015
Integrated Water Use Licence	DWS	Water use limits for construction and mining activities	20 Years	Received January 2016 Appealed April 2016 - Suspended



The project will commence once all the regulatory approvals are in place and the funding has been raised.



## TECHNICAL UPDATE

In November 2015, DRA commenced with the Front End Engineering Design (FEED) for the Makhado Project. This also included a definitive feasibility study (DFS) optimisation process with a focus on coal processing, materials handling and cost reduction.

With the underpinning goal of ensuring that the product quality and throughput of the DFS were not compromised, the optimisation study aimed to achieve the following objectives:

1. Identification of opportunities for improving the functionality of the project
2. Optimisation of capital and operational cost

The goals of the FEED were to:

- Prepare engineering designs, standard and drawings
- Review and amend the plant process flow and process design criteria
- Identify and recommend suppliers of equipment critical to the project
- Verify the technical feasibility of the project

The FEED and Optimisation Study resulted in a revision of the total project capital estimate from \$406 million quoted in the DFS to \$280 million, a 38% reduction of \$126 million. This has primarily been due to the weakening of the ZAR against the US Dollar, and a change to the infrastructure specification.

The FEED was successfully completed in May 2016, and the project is now technically ready to be handed over to an EPC/ EPCM partner for construction. This is conditional upon the finalisation of project funding and regulatory matters.

# MAKHADO PROJECT



## PROJECT DEVELOPMENT

An outsourcing model will be implemented at the Makhado Project – a contract mining company will undertake the mining operation and supply the mining equipment. The processing plant will be a build, operate and transfer arrangement which will be managed by a small owner's team. The processing plant and associated infrastructure will be supplied and constructed by an EPC contractor.



## VALUATION

- Net Present Value (NPV) US\$ 544 million (Discount rate 8.5%)
- Internal Rate of Return (IRR) 37.4%
- Capital Cost US\$ 280 million (as per FEED)
- Average Selling Pricing - Real
  - HCC US\$ 110 per ton - Margin 71% (Current Price US\$ 248 per ton – Margin 87%)
  - Thermal Coal US\$ 60 per ton - Margin 47% (Current Price US\$ 77 per ton – Margin 59%)
  - Cost per ton US\$ 32 (excluding distribution cost)

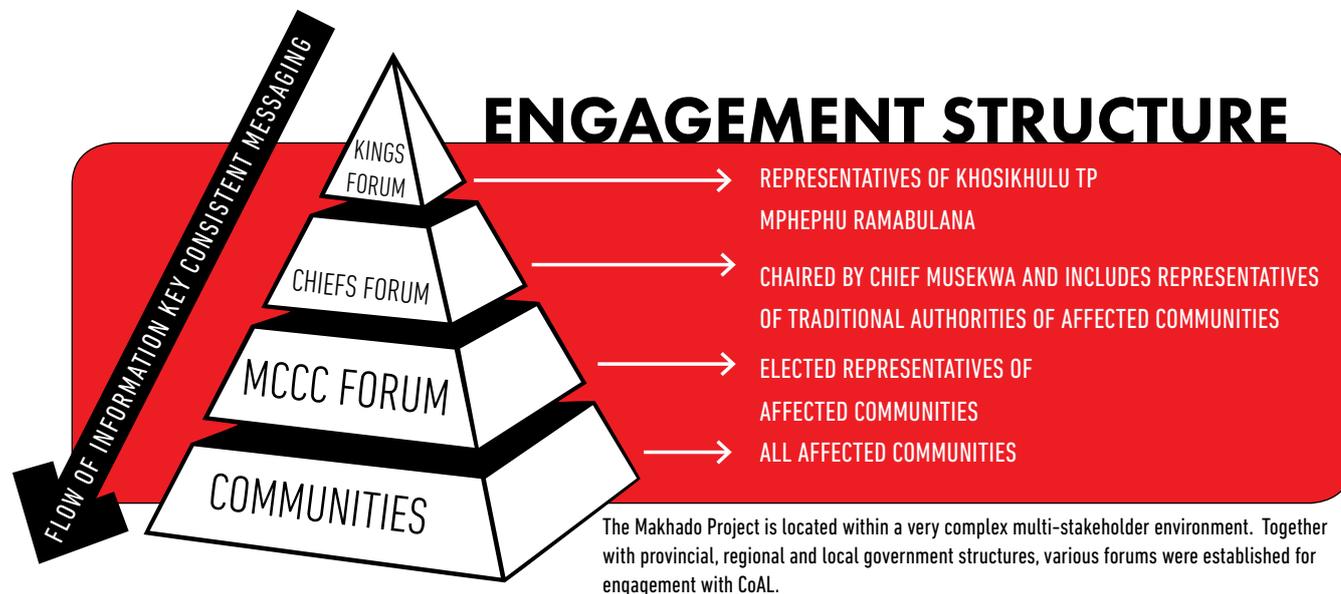
## CoAL's stakeholder engagement strategy

The vision of CoAL's stakeholder engagement strategy is to establish and maintain inclusive and mutually beneficial relationships through the creation of a shared value approach.

CoAL recognises that its relationships with its stakeholders are tangible, valuable assets which are critical to the success of the business and its operations. The company's engagement with its stakeholders is premised on the principles of collaboration, inclusivity, and mutuality.

CoAL has applied considerable time, financial and human resources to its stakeholder engagement activities as the company strives to earn and maintain its social licence to operate. CoAL engages with all stakeholders through a community centred and integrated approach which seeks to:

- Build social cohesion and social capital within communities
- Build sustainable collaborative relationships with stakeholders
- Create opportunities for mutual benefit
- Minimise risk, understand and respond to the issues that matter to communities and other stakeholders

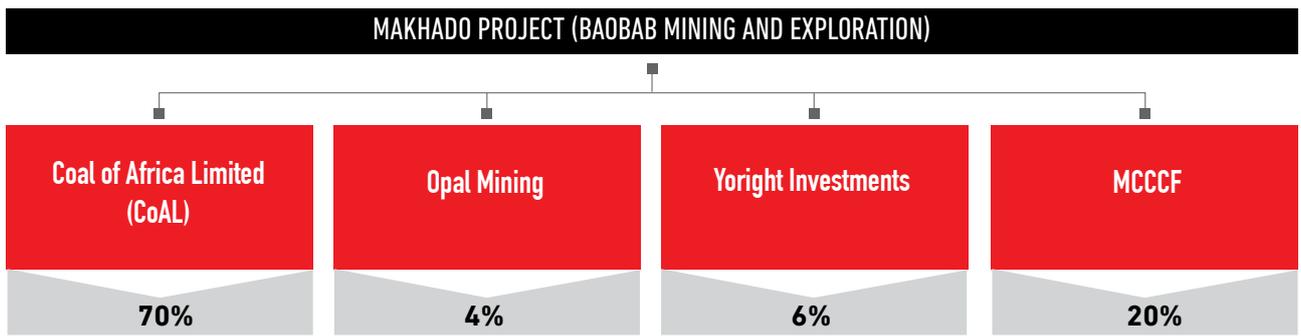


# Black Economic Empowerment Status

CoAL's Broad Based Black Economic Empowerment Strategy (B-B BEE) seeks to enhance sustainable value for all stakeholders, including shareholders and communities by facilitating sustainable socio-economic transformation.

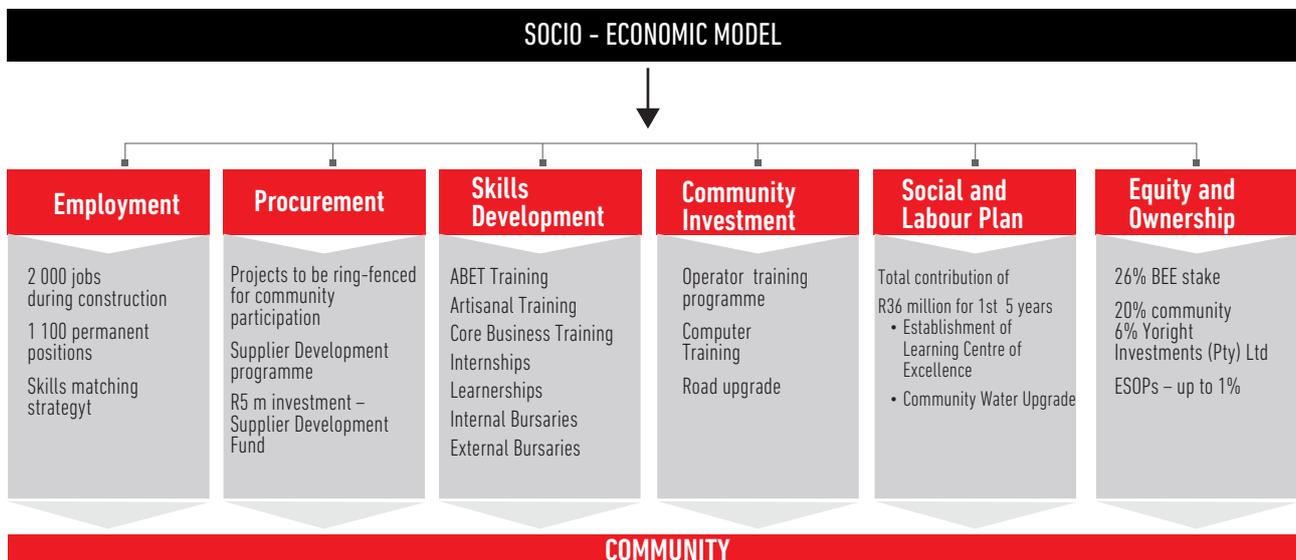
The ultimate objective of the strategy is to maximise the benefit of mining for communities by contributing to the goals of sustainable development at a community, municipal and provincial level. This strategy is based on shared values (mutuality) between the company and its stakeholders. It has been developed through a comprehensive, consultative and transparent engagement process with all stakeholders which has ensured full support for its structure and its mandate.

In May 2014, CoAL, the King's Forum, the Chiefs' Forum and the Makhado Colliery Community Consultative Forum (MCCCF) signed an agreement with CoAL to acquire a 20% stake in the Makhado Project. In March 2015, Yoright Investments signed an agreement with CoAL to acquire a 6% stake. Opal Mining signed an agreement with CoAL to acquire a 4% stake in Makhado.



# MAKHADO PROJECT

CoAL recognises the potential of the project to drive socio economic change not only in the project area, but to the district, and the broader province. The company also acknowledges the need to integrate sustainable developmental considerations into the company's transformative agenda, ensuring the creation of a living and lasting legacy within its communities. A socio economic model has been developed to ensure that the benefits of mining are maximised within the context of high unemployment, scarcity of skills, lack of access to opportunities, and lack of infrastructure to basic infrastructure and services.



## Socio and economic **benefits**

In a study conducted by the late Professor Ralushai, an anthropologist, he stated, "The greatest challenge to the province of Limpopo is to eradicate poverty and develop its people by creating jobs.

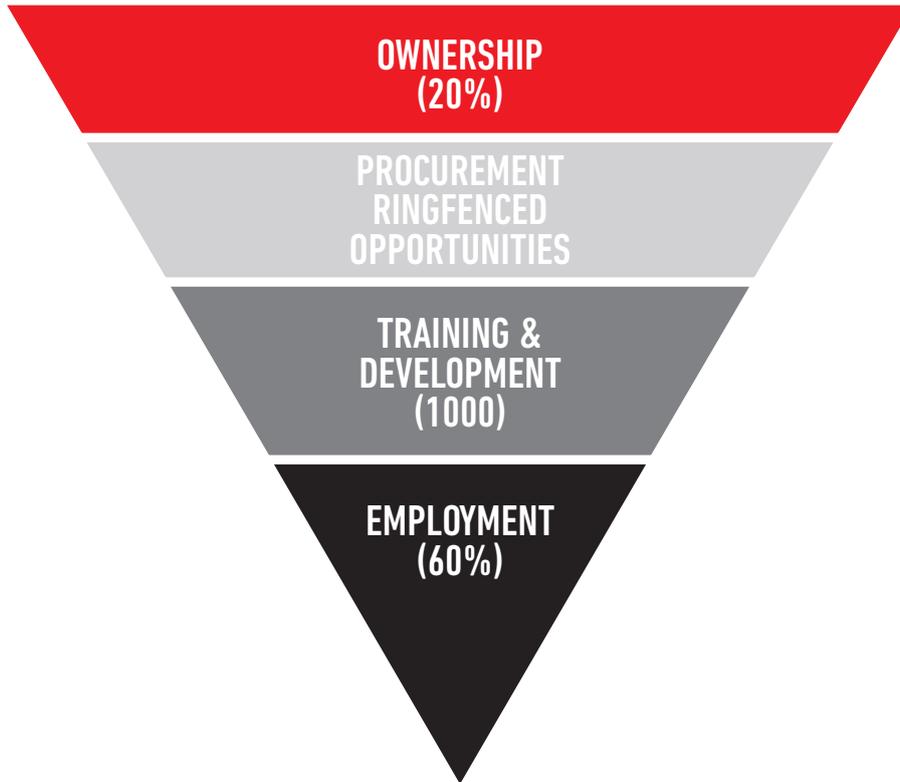
The unemployment rate in the area is one of the highest nationally and having CoAL operating in the area would contribute towards the economic development and wealth of surrounding communities."

CoAL has developed a Community Centred Sustainable Value Model to ensure that communities derive maximum benefits from the Makhado Project. This model focuses on skills development, enterprise development and community investment

# ENABLING SUSTAINABLE SOCIO ECONOMIC TRANSFORMATION



BENEFITS FOR THE 7 BENEFICIARY COMMUNITIES



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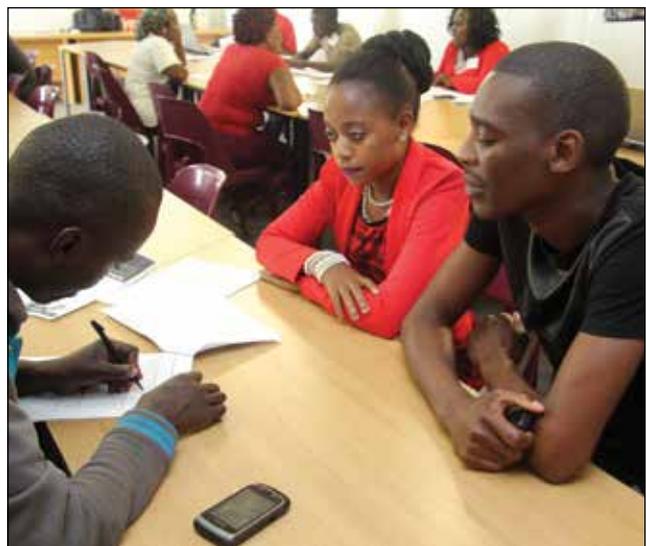
# MAKHADO PROJECT

## Understanding our communities - socio economic assessment

**A**n important facet of the model is the development of a comprehensive community profile for each of the seven communities, as part the process to understand our communities. CoAL has commenced with a door to door qualitative and quantitative survey which is conducted by field workers interviewing the adult head of each household. This will provide a greater understanding of the environmental and social context of the communities, enabling adequate mitigation measures, and a maximisation of potential opportunities and benefits.

### The social economic survey covers the following focus areas:

- Demographic profile
- Socio economic determinants
- Needs Analysis
- Skills Audit
- Enterprise and Supplier Audit
- Heritage and Culture Profile



**Engaging and collaborating with our communities to build and maintain lasting relationships**

Communities are engaged in terms of the engagement model, recognising both the traditional leadership and the voice of the community and are empowered with information, included in decision making processes



**Assessing communities for better understanding**

Recognising that each community is unique and has different complexities, CoAL implemented a Socio Economic Assessment process to understand our communities, the environment in which they live, their priorities, needs and aspirations. To date, more than 40% of households have been surveyed across the 7 communities and their details captured onto CoAL's Stakeholder Management System. This information will be used for recruitment and procurement processes

**Uplifting and transforming the lives of our communities**

Earning CoAL's Social Licence to Operate through uplifting communities and transforming their lives and environment both economically and socially in partnership with the local and provincial government

**Capacitating and growing communities to enable access to opportunities**

The Makhado Centre of Learning (MCoL) was launched on 3rd September 2016. Recently accredited by MerSETA, MCoL will train and develop 1 000 community members to enable access to recruitment opportunities during mining and construction phase of the Makhado Project. of the community to be trained before, during and after construction.

**Empowering our communities through Enterprise Development**

In September 2016, CoAL launched its Enterprise Development Programme in partnership with Raizcorp to IDENTIFY, INCUBATE and INTER CONNECT entrepreneurs with procurement opportunities within the Makhado Project



**Building social cohesion and driving sustainable socio economic transformation through investment in infrastructural development.**

- Upgrade of community water supply
- Upgrade of Makushu Road

# MAKHADO PROJECT

## Corporate social investment

The principle of and shared value underpins our approach to Corporate Social Investment (CSI). We recognise our responsibility to maximise the benefits of mining for its communities through collaborative partnerships between government (regional and local), communities and CoAL.

Our Social and Labour Plan (SLP) is a five year plan, in terms of the MPRDA, to drive socio economic transformation through the creation of jobs, development of SME's and the creation of sustainable opportunities to create access for as many stakeholders to benefit from the mining operation.

The SLP of the group have a recurring focus based on the environment in which the projects and operations located:

- Education and Skills Development
- Enterprise Development
- Infrastructure Development

## Makhado Centre of Learning

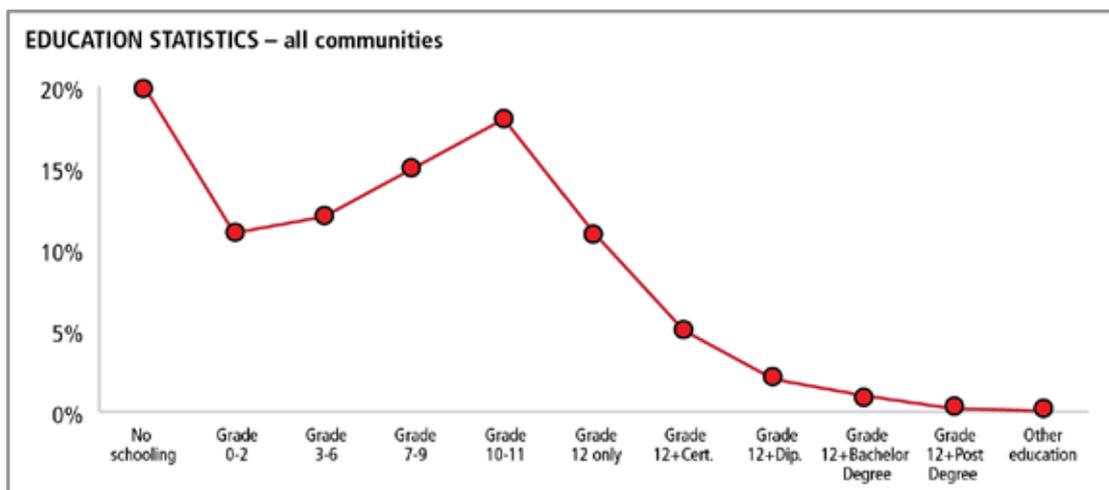
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**MAKHADO**  
CENTRE OF LEARNING  
KHA RI GUDE "LET US LEARN"

The National Development Plan states that "Education has intrinsic and instrumental value in creating societies that are able to better respond to the challenges of the 21st century. Education, training and innovation are critical to the attainment of the goals of eradicating poverty and reducing inequality."

The results of Socio Economic Survey shows that show that there is a dearth of skills amongst the project's beneficiary communities, reflected as follows:





The Makhado Project seeks to address the skills shortage within the project area through:

1. The Makhado Centre of Learning
2. The Makhado Project Bursary Fund

The Makhado Centre of Learning (MCoL) was launched on 3rd September 2016 to bridge the current divide which exists between the requirements of the Colliery, and the current skills levels of communities, at a technical, digital and communication level.

The vision of the MCoL is to be an indispensable partner to build skills, capacity and social cohesion within the Makhado Colliery's beneficiary communities.

The MCoL will innovatively transform the opportunities offered by the mining operation into benefits for communities relating to job creation and enterprise development, thus equipping communities to enter the labour market and access employment, SME and procurement opportunities.

The MCoL will integrate the requirements of a mining operation in relation to its workforce, the current skills level of communities and the company's obligation to drive meaningful socio-economic transformation. Carefully designed and integrated programmes from various sectors will be implemented to ensure the requirements of the various stages of the mining operation are met, from construction to mining operations.

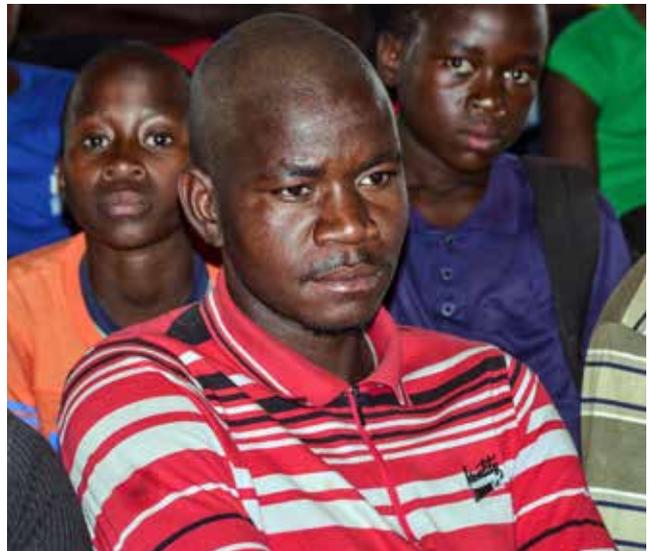
The MCoL is accredited by the Manufacturing, Engineering and Related Services SETA (merSETA), and will their programmes to all students to be trained.



## BRIDGING THE DIVIDE

TECHNICAL • DIGITAL • COMMUNICATION • ENTREPRENEURSHIP • LIFE SKILLS.

CoAL has committed to training 1 000 community members in preparation for the commencement of construction activities. During construction, between 2 500 short term jobs will be created, with 1 100 permanent jobs during steady state. A minimum of 60% of these jobs will be sourced from communities, using the data from the socio economic assessment



# MAKHADO PROJECT

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## Makhado Bursary Fund



**MAKHADO**  
**BURSARY FUND**  
MILORO IA WEDZA "REALISING DREAMS"

In August 2016, the CoAL team embarked on a road show to launch the Makhado Bursary Fund (MBF) to the schools in the project area. In January 2016, 11 students were awarded comprehensive bursaries to study in various disciplines at various institutions. The MBF is an extension of the CoAL Bursary Fund launched in 2009

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## David Brown, CEO, CoAL talks about the next steps of Makhado



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**T**he granting of the Integrated Water Use Licence for the Makhado Project was a significant milestone in the project's lifecycle, completing the full suite of regulatory authorisations for the project with the New Order Mining Right granted in May 2015, and executed in January 2016.

The Environment Authorisation, granted in August 2016, was transferred from CoAL to Baobab Mining and Exploration (Pty) Ltd, the operating entity for the Project.

The Makhado Mail (MM), the Makhado Project's Newsletter, spoke to Mr David Brown, Chief Executive Officer of CoAL at his offices in Johannesburg about the Makhado Project.

# MAKHADO PROJECT

**MM: Why is the Makhado Project called CoAL's flagship project? What is so unique about the project?**

**DB:** The uniqueness is twofold – firstly the project will become the country's only producer of Hard coking coal. This product is used in the steel making process which in turn will support the creation of local industrial growth. Secondly it will have a massively positive impact on the local communities in that we have transacted with the local communities to own 20% of this project which is a very large ownership percentage relative to any other mining project.

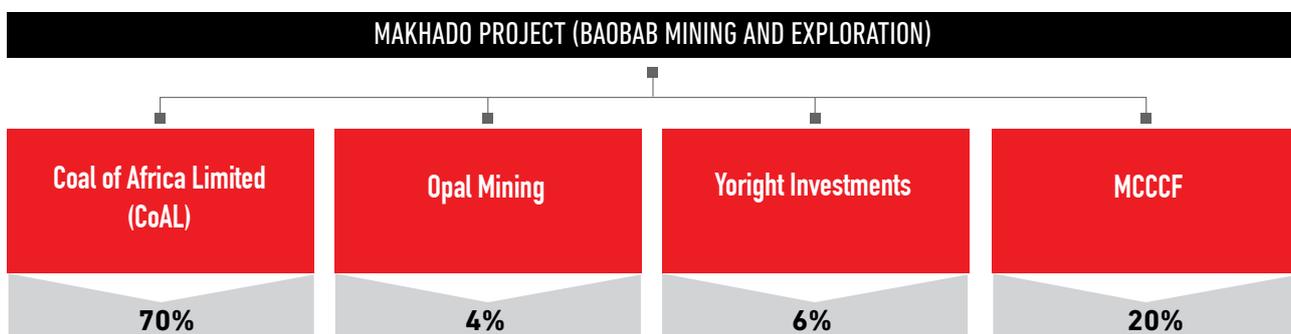
**MM: It's very exciting to note the recent announcements about the authorisations for the Makhado Project. What are the next steps to bring the project towards implementation?**

**DB:** We need to (a) secure all the surface rights and (b) ensure that all authorisations are finalised and any outstanding and relevant objections are dealt with – this would cover the integrated water use licence and the Environmental authorisation. After this is completed then the funding discussions will be completed.

**MM: There is still significant opposition to the Project. What are the key concerns raised , and what is CoAL's strategy to deal with such opposition?**

**DB:** My personal experience has been that there is huge excitement around this project with the majority of people supporting the project. A small number of objectors who have been more focused on how they can benefit rather than against the project in totality. Then in addition there is a grouping in the form of the Vhembe Mineral Resources forum who oppose any mining developments by Coal – they must have their own vested interests for this approach as the consequence is that it does seek to deny opportunities for the local communities to benefit from the project. The uplift for the communities are significant as they cover training/job creation and financial benefits for the communities. In addition there will be many other varied opportunities to participate in the project benefits.

**MM: Can we discuss the ownership of Baobab Mining and Exploration, the company which will be operating the mine, which is one of the means in which the communities will benefit. Are there any other benefits which will flow to the communities?**



**MM : What are the next steps to drive the project towards construction**

**DB:** We are pursuing many different work streams at present as projects of this nature are complex and significant. The Capital spend will be in excess of R 4.2 billion. We are making sure all our regulatory aspects are dealt with appropriately to ensure compliance with the relevant regulations. The fund raising will start towards the end of this calendar year with construction start still aimed towards the end of next year.



	REQUIREMENT	DETAIL	STATUS
1	Regulatory authorisations finalised and executable	New Order Mining Right (NOMR) granted by the Department of Mineral Resources in May 2015	<b>Finalised and Executable</b>
		Integrated Water Use Licence (IWUL) issued by the Department of Water and Sanitation in January 2016	<b>Appealed and Suspended</b>  Appealed by the Vhembe Mineral Resources Stakeholders Forum (VMRSF), Makhado Action Group (MaKag) and the Mudimeli Community.  In terms of the National Water Act, the appeal suspends the IWUL automatically.
		The Environmental Authorisation (EA) issued by the Limpopo Department of Economic Development, Environment, and Tourism, in August 2013, valid for 3 years	<b>Interim Interdict</b>  Interim interdict against the EA by the VMRSF, MaKag and the Mudimeli Community.  EA extended for an additional 5 years and transferred to Baobab Mining and Exploration (Pty) Ltd (BME), the operating entity for the Makhado Project in July 2016.  Appealed by the same groups.
2	Surface Rights	<b>The Makhado Project is located across 5 farms:</b> 1. Windhoek 648 MS(owned by Baobab Mining and Exploration (Pty) Ltd (BME)) 2. Tanga 648 MS (owned by Baobab Mining and Exploration (Pty) Ltd (BME)) 3. Fripp 645 MS – owned by the Republic of South Africa, under the custodianship of the Mphephu Traditional Council ( in terms of GN 376 / 1968) 4. Lukin 643 MS and Salaita 188 MT privately owned, and under gazetted land claim.	Commenced with a Resolution Process in terms of the Interim Protection of Informal Land Rights Act (IPRILA 31 of 1996). Pre resolution meeting held on 20 August 2016, resolution meeting scheduled for 17 September 2016.
3	Funding	The Makhado Project has a Net Present value of in excess of R8.8 billion, and will require R 4.5 billion to build.	Discussions are on -going but can only be finalised once all the regulatory authorisations are full executable.

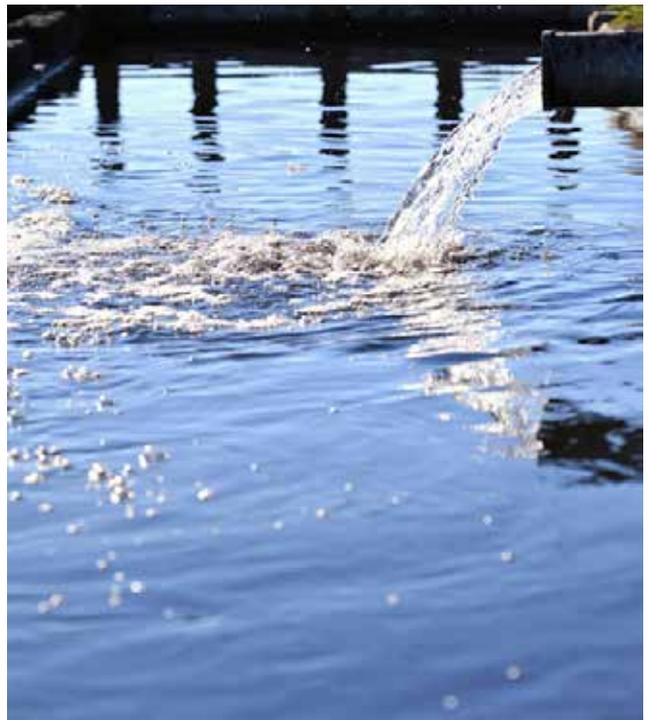
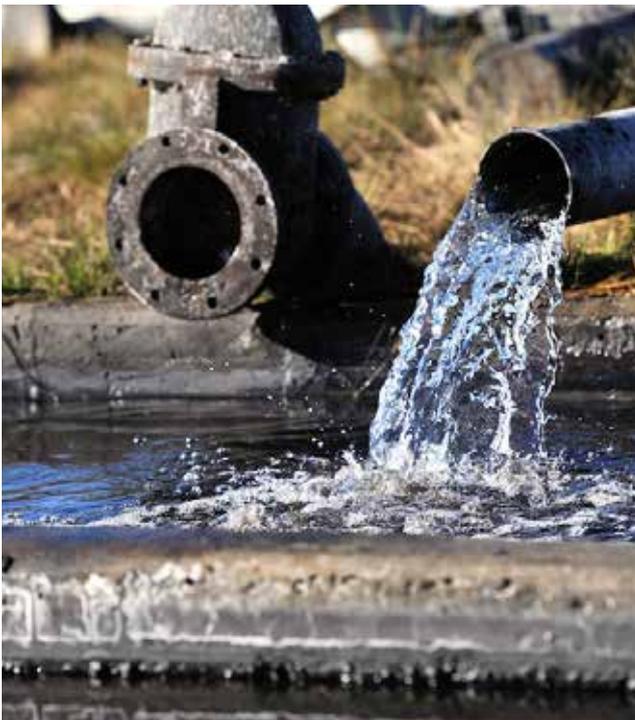
# MAKHADO PROJECT

## KEY CONCERN: WATER

**R**ecognising that the quality and quantity of water is a key concern for all stakeholders, the company has partnered with landowners in the area to create a model for co-existence between mining and agriculture. In October 2012, CoAL and a number of farmers in the Nzhelele catchment signed a memorandum of agreement (MoA) in respect of the more efficient use of water in the Nzhelele River catchment area of Limpopo Province.

The key objectives of the MoA are to:

- Improve the assurance of water supply to the Makhado Project and other water users;
- Minimise any potential impact of the Makhado Project on the agricultural sector
- Facilitate the Makhado Project obtaining a bulk water allocation without negatively affecting the availability of water for agricultural purposes



## OUR COMMITMENT TO OUR COMMUNITIES

**E**ngage regularly, in a transparent manner, ensuring that all our communities are included in the process

- Empower our communities with relevant information to enable them to participate in decision-making processes in an informed manner
- Facilitate and encourage responsible project design to ensure that the potential impacts of the project are minimised and mitigated
- Integrate sustainable development principles into our decision making processes
- Identify potential opportunities for community benefit throughout the life-of-mine
- Implement a strategy which would drive local development and empowerment

ENVIRONMENTAL BEST PRACTICE, IS A TOP PRIORITY AT COAL  
WHICH IS ENCAPSULATED IN OUR PHILOSOPHY OF “DOING IT  
RIGHT, FIRST TIME”



# Unlocking the Musina-Makhado Special Economic Zone through the Makhado Hard Coking Coal Project

## INTRODUCTION

Coal of Africa Limited (CoAL), a South African publicly listed, emerging developer of hard coking and thermal coal resources, applied in 2015 for an investment from the Industrial Development Corporation (IDC) to fund certain pre-implementation processes for the Makhado Project. This resulted in a credit application for a R240 million investment. This transaction was not approved, and no clear reasons given, despite the enormous potential of the project to facilitate and enable delivery against the National Development Plan's Vision 2030.

## BACKGROUND

Coal is one of the country's abundant and valuable resources, with South Africa ranking among the top ten major producers globally, producing 3.7% of the global output. The country is endowed with more than 30 billion tonnes of coal, equivalent to more than one hundred years' supply, at current production and consumption rates. This resource has been a catalyst in the development of the mining sector and has also catalyzed the country's industrialization by helping to meet its energy needs.

Within the current South African environment, there are limited alternative solutions for reasonably priced power other than coal (especially base load power generation). There is also a recognition that the country needs to reduce its reliance on coal by adopting more sustainable energy sources in the near future. However, coal can and must remain part of our energy mix, as is recognized in the IRP 2010, and which we believe will also be acknowledged in IRP 2016, due for imminent release. It is therefore possible to retain coal in South Africa's energy mix, with mining companies benchmarking against adopting clean coal solutions.

In terms of indirect and induced benefits, the coal industry's impact on the economy includes expenditures on investment and employment in sectors such as electricity, manufacturing, construction, and finance.

Coal of Africa Limited (CoAL) is a proudly South African emerging developer of high-quality coking and thermal coal, with its assets located primarily in the Limpopo province company. The presence of hard coking coal and the size of CoAL's resources, 2.4 billion mineable tonnes in situ, is a differentiating factor from other coal junior mining companies.

Hard coking coal of the quality and quantity available to CoAL's Makhado Project can help reduce South Africa's dependency on importing its current requirements. This product can therefore reduce the cost of steel production locally and simultaneously improve South Africa's balance of payments through exports.

Like other mining companies, CoAL has experienced some significant challenges to deliver on its vision to sustainably produce in excess of 6 million tonnes per annum. Some of these challenges, experienced by South African coal mining companies, have been highlighted via the Chamber of Mines, which include amongst others:

- i) **Land access.** Mining in general competes with other sectors such as agriculture and manufacturing for land use. In some areas, agriculture is prioritised, and if mining activity is authorised, there is vocal and vociferous objections to mining. Internationally, evidence suggests

# MAKHADO PROJECT

- ii) **Policy and regulatory.**
  - a. Environmental policies and regulations aimed at ensuring environmental best practice is sometimes at odds with a developmental agenda.
  - b. The policies and regulations aimed at reducing the country's carbon emissions are welcome but must take into account South Africa's developmental constraints.
- iii) **Access to capital (markets).** As international finance institutions adopt strict environmental codes the consequence has been reduced credit extended to coal mining and firms that use coal technology to generate electricity.

## THE MAKHADO PROJECT – CoAL's FIRST FLAGSHIP PROJECT IN THE SOUTPANSBERG

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The fast dwindling Mpumalanga thermal coal reserves has led to the development of the Limpopo coalfields to meet the country's demand for coal for its electricity requirements.

CoAL's Makhado Project, located in the Soutpansberg Coalfields in the Makhado Municipality, has the potential to deliver significant value to all its stakeholders, including its shareholders (20% being the community), enabling the company to become a significant global coking coal producer.

In June 2013, the company released an independently verified Class II Definitive Feasibility Study, demonstrating the project's ability to produce an annual 2.3Mt of hard coking coal, and 3.2Mt of thermal coal annually over its 16 years life of mine.

All the regulatory authorisations have been granted for the Makhado, which include:

- New Order Mining Right, granted May 2015
- Environmental Authorisation, granted in August 2013, amended and extended in July 2016
- Integrated Water Use Licence, granted January 2016, appealed and therefore suspended.

## OWNERSHIP

The Makhado Project has a 30% BEE shareholder with the beneficiary communities owning 20%.





This project is located in a very rural area within the Makhado Municipality and the Magisterial District of Vhembe, with 7 beneficiary communities. A recent socio economic assessment conducted by CoAL revealed that more than 30% of these communities do not have access to a stand pipe water connection, and more than 20% have no schooling at all.

CoAL has designed a community centred Sustainable Value Model (SVM) to ensure that the benefits of the Makhado Project are maximised for communities. These benefits are, amongst others:

1. Ownership – communities own 20% of a project which has a Net Present Value of \$550 million.
2. Procurement – Makhado's Enterprise Development Programme was launched in September 2016 which will identify, mentor and develop 60 entrepreneurs to access procurement opportunities. In addition, procurement opportunities have been ring- fenced for communities, some of which include fuel, construction, transport, logistics etc
3. Employment – during construction, 2 500 jobs will be created, 60% of which will be drawn from the communities. During mining operations, 1 200 jobs will be created.
4. Training and Development – the Makhado Centre of Learning, accredited by merSETA, was launched in September 2016 to provide workplace skills, digital training, artisan and technical training and entrepreneurship training.
5. Investment in Infrastructure – more than R50 million will be spent to upgrade the community water supply, and further R15 million has been budgeted to upgrade a road utilized by most community members.

## THE MAKHADO PROJECT – CATALYST FOR THE MUSINA- MAKHADO SPECIAL ECONOMIC ZONE

In July 2016, the South Africa Cabinet announced the designation of the Musina-Makhado Special Economic Zone (SEZ) by the Minister of Trade and Industry, Dr Rob Davies. This SEZ, a strategic intervention of the Industrial Policy Action Plan (PAP) to accelerate economic development through greater investment, export volumes and job creation.

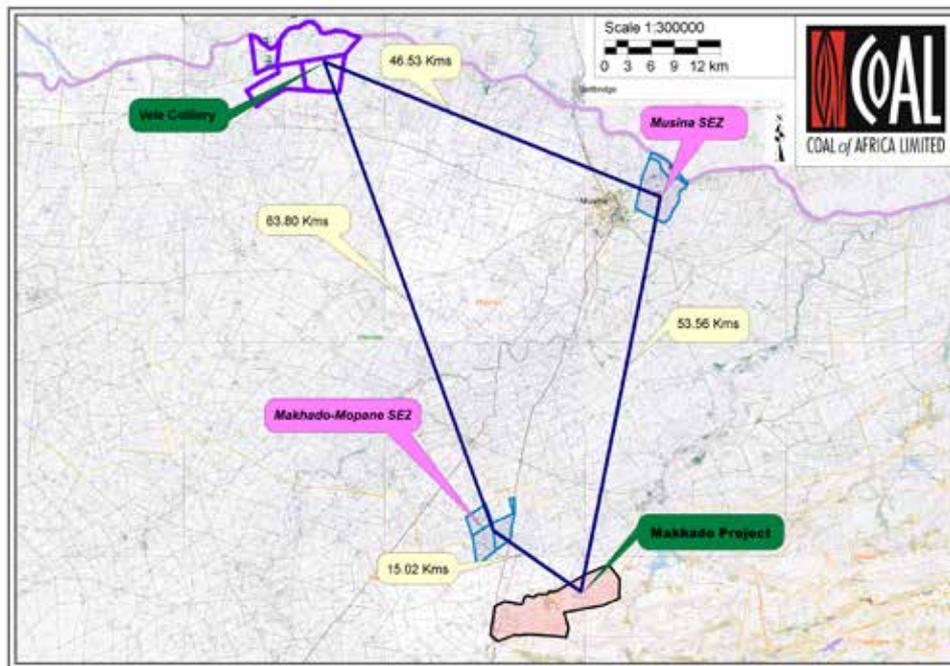
The Musina-Makhado SEZ is intended to drive economic growth and create employment in the Vhembe region, expand the manufacturing sector and mineral beneficiation

The SEZ lies within the Trans-Limpopo Spatial Development Initiative and is well positioned for regional integration and linkages with Mozambique, Zimbabwe and Botswana.

Both of CoAL Project's; Vele and Makhado , are located within the Vhembe District.

# MAKHADO PROJECT

## PROXIMITY OF MAKHADO AND VELE TO THE MUSINA-MAKHADO SEZ



- Proximity of the Makhado Project to the Makhado SEZ
- Role of the Makhado Project in unlocking the Special Economic Zone in both Makhado and Musina:
  - o Hard coking coal supply for establishment of stainless steel plant
  - o Thermal coal for electricity supply through Independent Power Process and/or Eskom
  - o Mining as a key drive for industrialisation
- Ability of Makhado to deliver on the transformative objectives of the SEZ:
  - o Job creation – commitment to employ at least 60% from communities (2 500 during construction – 26-30 months, 1 100 during mining operations – 16 year life of mine)
  - o Enterprise Development
- Establishment of CoAL Enterprise Development Programme (R5 million) to identify, incubate and inter-connect communities SME's with procurement opportunities during construction and mining activities
- Ring fenced opportunities for community based enterprises Meaningful and direct socio economic transformation
  - o Training and Development – a minimum of 1 000 people to be trained at the Makhado Centre of Learning, accredited by Musina in the following fields:
    - Workplace Readiness Programmes
    - Digital Training
    - Entrepreneurship Training
    - Technical Training – Artisan Aide programmes
    - The Makhado Artisan Programme to be launched in January 2018
    - Fostering of social cohesion within communities, and the development of sustainable communities
    - Beneficiation strategy
    - Reduction of imports, and improvement in balance of payments

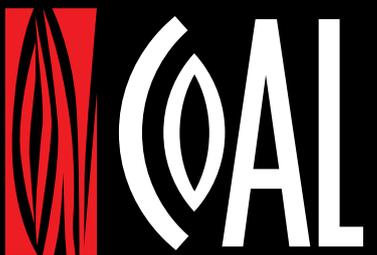


RISK	MITIGATION MEASURES
Security	Security package including the following assets: <ul style="list-style-type: none"> <li>• Brownfields operations – Vele and Mooiplaats Collieries</li> <li>• Makhado Project</li> <li>• Right to convert into equity if desired</li> </ul>
Off-take Agreement	<ul style="list-style-type: none"> <li>• Arcelor Mittal – letter of intent</li> <li>• Special Economic Zone</li> <li>• Export quality thermal coal</li> <li>• Hard coking coal of premium quality</li> </ul>
Risk Commodity Environment	<ul style="list-style-type: none"> <li>• Security as above but prices have increased for hard coking coal by over 160% this year</li> </ul>

## CONTRIBUTION OF THE COAL INDUSTRY IN 2015

- EMPLOYMENT: 77,709 people, 17% of the total employment in the mining sector.
- SALES – Total sales of R103 billion
- EXPORTS – Averaging 50% of sales since 1993, 12% of total merchandise exports

South Africa derives over 70% of its energy requirements from coal; 90% of the economy's electricity requirements; and over 30% of liquid fuel demand (coal-to-liquids technology).



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