CoalFields

Executive Summary

Lungile Ndaba

1. Background and Introduction

CoalFields Resources Limited, ("CoalFields") is a new Independent Owner Operator Resources Company founded by Lungile Ndaba, a resources entrepreneur, on the back of a successful trade sale of Serwalo Coal (Pty) Resources (Serwalo Coal), a company again founded by him, to Glencore.

CoalFields business case is to consolidate an operating asset as the nucleus for the establishment of a larger coal business to be bolstered with further acquisitions of near development projects.

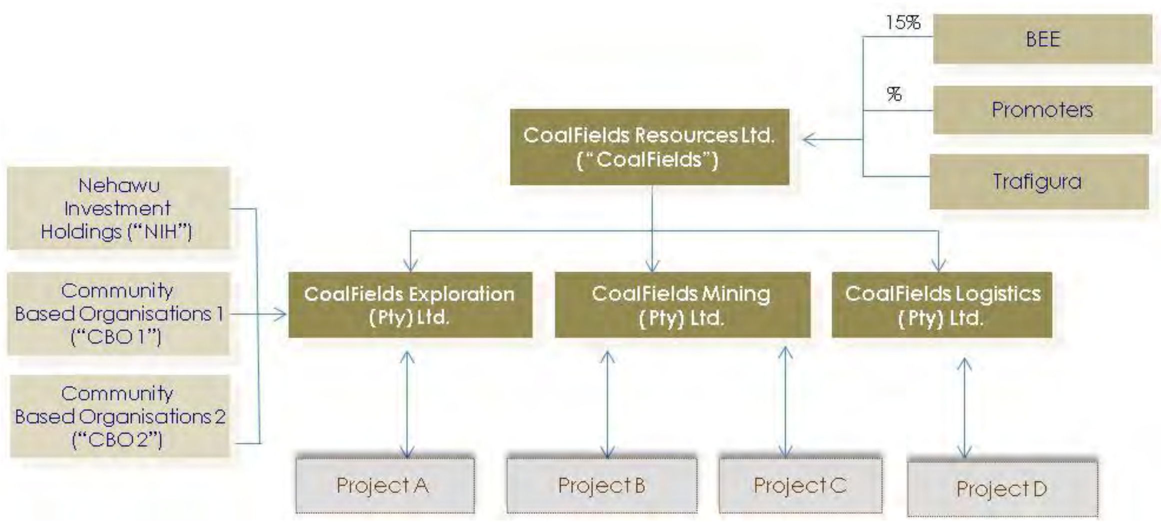
Unlike Serwalo Coal, which advanced early stage projects in Limpopo and Mpumalanga from Greenfield to Measured category, Coalfields is seeking to operate assets and specifically assets that are either operational or geared to be within 18months. The CoalFields business model seeks capture operational cash flows focusing on improving operational efficiencies either through production, logistics or contracts pricing. The Coalfields operational ethos is on Early and Near Tons.

Coalfields has amassed a portfolio of Targets, the "Assets" which include a core operational component of assets that are producing at the: (i) lower production cost quartile, (ii) secured longterm offtake agreements with Eskom, (Africa's largest Utility Supplier), (iii) high reserves of Export including In-land Metallurgical Product, and (iv) near production projects with submitted mining right applications.

The assembly of CoalFields amalgamates stakeholders who deliver commercial, technical and funding capability, through these bedrock requirements Lungile Ndaba proposes the participation of Trafigura, an international Commodities trading House, Nehawu Investment Holdings, ("NIH") a union investment company with 260 000 beneficiaries and key technical professionals to develop the initial commercial architecture and operating platform for CoalFields, which is proposed in the following organisational structure.

Group Structure

The Proposed Group structure is set out below.



2. PROJECTS

CoalFieds is established to acquire 100% of the Projects, ("Target Acquisition"), which company will be held by a new executive management, to be appointed, together with the Founder, Trafigura and a BEE Group, the ("Promoters"). The Promoters may elect at their discretion to invite the participation of additional investors who may be interested in supporting the management team in funding the current target acquisitions including expansion or further acquisitions to unlock greater value.

Extensive detail is offered on the Target Acquisitions which seek to consolidate an operating asset as the nucleus for the establishment of a larger coal business to be bolstered with consolidation of Project A, C and D, as the near term development projects to deliver a multiplier growth effect.

Project A

Project A is situated in the Kriel area whose main focus will be for **Export Quality Thermal Coal**. With **82M tons in situ**, defined after an extensive drilling program **the full resource is now in the "measured" category** with a finalized **Feasibility study.** After extensive washability tests the best quality combination seems to be a **Primary coal product at a CV of 27.5 Mj/Kg**, and a **Secondary product at a CV of 20.5 Mj/Kg** which is to be supplied to Eskom.

The Open Cast areas are estimated at 20.8 Mt in situ after geological loss; the feasibility study proposes to start with a 9.4 Mt open cast mining plan, with a production rate of 900.000 tons per annum, mostly producing for export and (for this part only) with a Life of Mine of 11 years. The intentions is however to develop further geological knowledge over the entire are over time to be mined, extending the Life of Mine 5-fold.

The mine lies within close proximity to a RBCT Line and Siding, so logistics costs for exports will be relatively low. No detailed costing studies have been performed yet, but as an indication the main no 2 seam (that produces the export quality coal) has an average depth of only 21 meters below surface in the Open Cast area, so can be mined at relatively low cost and at an attractive strip ratio; the no 2 seam has an average thickness of 4.45 meters.

It is also key to bear in mind that the project will yield a secondary market in the form of Eskom through blending, will produce a highly profitable income stream with good volume of production which needs to be brought into Project B's venture.

Project B

Project B is an operational coal mining producing an **annual 3.2mtpa ROM**, fully supported by Eskom and Inland Contracts. The resource is estimated at around **106 Mt In Situ** with open cast and underground mining. As a going concern the Asset has proven contract miners in place with proven operations and margins at an annual output rate of 3.2 Mt of ROM.

The Inland sales are well established, and once MDS plant and Rapid loading Facilities are fully operative, the project will add an additional **75.000 tons per month of RB 3** type product for export through Richards Bay.

The business is fully up and running and generating cash-flow and profits. The next phase of development comprises of an additional 2 properties with export grade coal. Projects, **"B1" and "B2", together with a combined 25 Mt In Situ**; the further operational milestones to accommodate for B1 and B2 are an additional beneficiation plant alongside loading facilities and a railway siding for the materials export.

The basic details of the producing asset including B1 and B2, the "Joint Resource" are in total around 106 Mt In Situ with both open cast and underground operations housed with Contract miners in place with proven operations and margins. The asset has a current annual output of 3.2 Mt of ROM, fully supported by Eskom supply contracts and Inland Coal sales. The project is further supported by good access to power, road and rail infrastructure **generating net earnings for the year were well over R 100M, (One Hundred Million South African Rands)**.

Project C

Project C is highly suited to be developed alongside Project A for its Thermal coal component. The project is not in the production stage as yet, it's anticipated to produce at least **50 000 tons per month** of saleable Metallurgical Quality coal either for export or to service the SA furnaces & smelters, for a **Life of Mine of 15 years**. Which is enhanceable if the contiguous properties can be consolidated which have the very same continued coal seams.

The Project is situated near Secunda with an approved Mining License and completed BFS, estimating the measured resource at **29.6 Mt** with one coal seam of economic interest (5 seam) which meets metallurgical coal specifications and is suitable for use as PCI in steel production, synfuels, chemicals, and also satisfies Richard's Bay 1 export specifications.

The mining conceptual design includes the Processing of 1,6Mt ROM through a Single Shaft Mine - box cut with decline to 45m housing a main development area double panel with 14 roadways. Further provisioning includes Twin ventilation system, 3 Drill and Blast Sections, 2 Continuous Miners mining a Minimum seam thickness of 1.6m yielding a 15 year Life of Mine.

Project D

Project D is situated between Middelburg and Ermelo, in Mpumalanga Province, South Africa. Currently under Prospecting License with a mining right application which may already be approved. The **Bankable Feasibility Study was completed in Sept 2011** which has proven the project to be technically and economically viable with a Mine Life of 30 years and **Gross in situ Resources 167 Million tons.**

The BFS on the Project outlines as mentioned a technically and economically viable project with potential to produce over 1Mt of export sales and 1.5Mt of domestic sales annually, with annual EBITDA in excess of US$50m. When in operation the **project is expected to produce over 0.8 million tons of export sales, over 1.7 million tons of domestic sales** emanating from a conventional opencast and underground mine.

The Opencast mining is proposed initially at a rate of 100,000 tons per month over a five year period. Underground development is proposed to commence in the second production year with access from a highwall and proposed to utilise six continuous miner sections with production forecast to continue for 30 years. Planned processing of the 3.6Mtpa ROM production will be through a 600t/hour dense medium separation wash plant.

Production of about 1.7Mtpa of a 20MJ/kg thermal coal product to be sold to the domestic market with a further 0.8Mt of a 27.5MJ/kg "RB1" high quality export thermal coal product is to be railed from a new rail siding and sold FOB at the Richards Bay Coal Terminal.

The Project is forecast to have total operating costs (July 2011 terms) of ZAR449/t of export coal and total FOB costs of ZAR568/t of export thermal coal including all sustaining underground capital expenditure. Total up-front capital (July 2011 terms) to be spent over the initial three years will be ZAR1.7 billion.

This forecast comprises ZAR394 million of surface infrastructure, ZAR308 million for the coal wash plant, ZAR160 million for offsite infrastructure and rail siding construction and ZAR838 million of underground mine development.

The up-front capital is offset over this period by about ZAR254 million of operating cashflow from the initial three years of open cast operations.

It is quite possible optimise the project in order to improve the already positive results and findings through engaging discussions with a number of parties in respect of utilising existing operating coal wash plants and rail sidings located close to the Project. This may result in capital cost savings of about ZAR468 million.

In addition, similar discussions may also be engaged with specialist coal processing contractors to complete the construction of the coal wash plant under a BOOM (Build-Own- Operate-Manage) Contract that on a standalone basis will potentially reduce the up-front capital by about ZAR308 million.

Resources Profile

	PROJECT A				PROJECT B			
Resource	Gross 82mt in situ, Measured Category			O/C & U/G	22.1mt	20mt	5.3mt	53mt
CV	27.5MJ/kg	20.5MJ/Kg	27.5MJ/Kg	20.5MJ/Kg	22MK/Kg	23.7MJ/Kg	24.6MJ/Kg	
VM	29%	22%	28.4%	19.9%	21.4%	22%	29.5%	
ASH	13.5%	29.6%	13.6%	30.3%	28%	24.9%	18.1%	
Moisture	2.9%	2.4%	3.0%	2.8%	0.9%	1.4%	1.4%	
Thickness	2.52m	2.52m	4.8m	4.8m	3.84m			
Production	Approved Mining License				3.2mtpa			

	PROJECT C	PROJECT D		
Resource	29.6mt Gross in situ, Measured Status	167mt Gross in Situ		
CV	27.5MJ/kg	27.5MK/Kg	5.5.7MJ/Kg	20.5.6MJ/Kg
VM	34.6%			
ASH	13.7%			
Moisture	4.1%			
Thickness	2.52m			
Production	Approved Mining License			

3. Economic Evaluation

CoalFieds aligns a credible platform of Domestic Entrepreneurial acumen, understanding of the local regulatory expectations including a highly experienced international trading house to create an unprecedented market offering with a key selective asset focus on early and near Tons development, with a high concentration on risk management and the re-investment of cashflows to fund development.

With the basic operations (including contract miners) in place and sustainable revenues backed up by longterm contracts, project A operations offer an excellent platform to consolidate Projects B, C and D assets around an operating project with multiple end users with a consistent anchor focus on export resources.

The Portfolio built with Project B as its core, facilitates a credible platform to expand and consolidate additional export coal plus metallurgical quality coal resource to supply the local smelters (who now import part of this coal).

4. Marketng

Coal mined at the various operations is supplied to Eskom and the inland Metallurgical Market on a Free on Truck basis. Under the existing Eskom supply agreements coal mined is supplied to the Majuba, Thuthuka and Camden Eskom power stations via the provincial road network with medium and longterm to secure off-take agreement.

General Market Coal price forecasts are projected to be as follows:

Coal price forecasts

	2012 terms	2013 Onwards
A-grade export	$85/t	+2% per annum
A-grade domestic	R400/t	+5% per annum
Eskom	R150/t	+8% per annum
Discard product	R55/t	+8% per annum

The ZAR to USD exchange rate is projected to be R8 to $1 depreciating at 3% per annum.

5. Investment Proposal

Whilst CoalFields is a prospective relatively new player the principals behind the Company have a combined 30 years experience in the sector, amalgamate quality assets with fantastic the coal qualities, good strip ratio's and production costs at the lower cost curve make it one of the new exciting quality development companies Mpumalanga coal field.

6. Key Success Factors

- **Selective Asset Consideration**, Operating and near operating assets with the prospect of early tons operational rollout within 18months with high grade domestic and offshore coal;

- **Emphasis on Risk Management**; operations with production costs in the lower cost quartile, negating operating closure at depressed commodity prices;
- **Re-Investment of Earnings**, development of a stand-alone high grade collieries which may self fund expansion from cash flows limiting the requirement for shareholder draw downs;
- **Multiplier Growth Effect**, consolidation of blue sky and operating assets to optimise shareholder value;
- **Partner Stakeholders,** strategic stakeholders with vast resources experience in the domestic and international market with a fundamental understanding of markets, logistics, mining finance including the regulatory framework.

7. The Way Forward

A. Conclude Scope and Transaction Parameter Agreements between Founder, NIH and Trafigura;
B. Appoint Transaction Advisers and enter into Negotiations with Prospecting Right and Asset Holders;
C. Effect Secretarial Executions & Due Diligence on targeted assets;
D. Implement successful transactions including Staffing Group and Operations.

Parties to the Transaction will be provided with additional information regarding the projects by Lungile Ndaba and all communication and queries in regards to the investment opportunity should, at this stage, be addressed to Lungile Ndaba whose contact details are as follows:

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8. Legal Notice

The information provided in this memorandum has been based upon information provided by the Asset Owners and has not been independently verified. Accordingly, no warranties or representations are given as to the accuracy or otherwise of the information and no liability is assumed in relation to the information or the opportunity whatsoever.