



26 February 2016

ASX Announcement

BOARD REPORT TO SHAREHOLDERS

Dear fellow shareholders

I am pleased to take this opportunity to update you on developments since my last report from the board on 16 December 2015.

At its meeting in Johannesburg on 18 February 2016, your board received detailed reports from the interim CEO and from the Technical Committee, appointed by the board at its December 2015 meeting, with a mandate to review all aspects of the Boikarabelo project. I am pleased to report that substantial progress has been made on all material fronts.

Work undertaken by the Technical Committee resulted in the following recommendations:

- a different approach to the Boikarabelo Coal resource which can achieve a better opportunity than previously expected following a review of the geological model by an independent expert;
- a revised mining plan based on selective mining and in-pit dumping with the aim of maximizing productivity and reducing operating costs;
- a project development strategy that transfers mine construction risk by the appointment of a small number of reputable EPC contractors with substantial balance sheets, allowing for recourse in the event of failure or delay, and managed by a small in-house specialist team; and
- a strategy to reduce capital costs and minimize risk by appointing a suitably qualified contract miner.

An international search agent has been engaged to identify “best in class” candidates to be appointed to the South Africa-based in-house specialist team referred to above. A shortlist of candidates is expected before the end of February.

The work undertaken to date by the Technical Committee has given the board confidence in the execution of the project post completion of the debt funding and the economic viability of the project after first production of coal.

Project Funding

As reported in today's ASX Funding Update, substantial progress has been made with regard to the Boikarabelo project funding. All funding options have been explored. Currently, the only credible option available is that proposed by the debt club established by the previous board. First Rand Bank Limited, acting through its Rand Merchant Bank division (“RMB”) has been appointed lead arranger and work on a new base case financial model and term sheet has begun based on the recommendations of the Technical Committee. The support that we have received from all members of the debt club continues to be positive and encouraging. Although the project funding process necessarily takes time to complete, we have a high degree of confidence in achieving full project funding.

In conjunction with RMB, we will also continue to explore other funding options.

Development Opportunity

In order to expand the economic base of the Boikarabelo project, we are fast tracking the preparation of a bankable feasibility study for the construction of a 260MW independent mine-mouth power station to operate as an approved independent power producer ("IPP"). The project has already received the environmental and land use approvals required for the IPP. Should the feasibility study confirm economic viability, construction of the IPP will provide us with optionality with regard to our domestic coal production and an additional revenue stream. The project would also transit the Company from the coal sector to the energy sector. Supply agreements with both the public and private sectors are being explored.

Infrastructure Arrangements

Our relationships with key stakeholders in South Africa including Department of Mineral Resources and Transnet Freight Rail ("TFR") continue to develop in a positive manner. Discussions with TFR concerning the project's access to the Richards Bay Coal Terminal are in progress. If these negotiations result in a positive outcome our costs of logistics will be substantially reduced from earlier plans.

Other Activities

While the Technical Committee and project funding initiatives are in progress, little construction work is required at the mine. The focus at site is on maintenance of the facility and structures already completed and continuation of the environmental and social responsibility programs.

The board approved a minimum two year employment contract with Rob Lowe as Chief Executive Officer and approved the appointment of Brendan O'Regan as Chief Financial Officer. See addendum for salient terms of the CEO's contract.

The company has now closed the Sydney office and is seeking to sub-lease the office space. Effective 22 February 2016, the Company's registered office, postal address and principal place of business will be as follows:

Registered Office

c/o David B Overell Pty Ltd
Level 1, 17 Station Road
Indoorpilly, QLD 4068
Australia

Postal Address

PO Box 126
Albion
QLD 4010
Australia

Principal Place of Business

Unit Two Carrera House
15 Sovereign Drive
Route 21 Corporate Office Park
Irene Gauteng 0157
South Africa

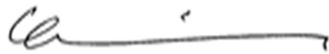
PO Box 5384
Rietvalleirand 0174
Pretoria South Africa

Tel +27 (012) 345 1057
Fax +27 (012) 345 5314

I concluded my previous report stating the board's belief that the Boikarabelo Coal Mine had a compelling case for development and offered significant opportunities for all stakeholders. This belief has only been reinforced by the results produced to the board of the work undertaken to date by the new management team.

The next scheduled board meeting is to be held on 19 May 2016 and I intend to provide you with a further report at that time, if not before.

Yours sincerely



Denis Gately
Chairman
For and on behalf of the Board

**Addendum
CEO Contract Terms**

The Company, in accordance with ASX Listing Rule 3.16.4 advises that the following is a summary of the terms of the employment contract agreed with Rob Lowe

- Effective 26th November 2015 and shall remain in force and effect until terminated in accordance with the provisions below.
- Subject to a minimum term of 2 years the Company may terminate the contract for misconduct, poor work performance, incapacity or operational requirements. Subject to the minimum term either party may terminate the employment contract by serving the other with one calendar month notice.
- Total fixed remuneration AUD800,000 (inclusive of superannuation).
- Participation in a bonus scheme under which there is the opportunity to earn a maximum of 50% of fixed remuneration subject to key performance indicators including *inter alia* completion of the Company's debt funding arrangements, commencement of construction before the end of quarter 3 of 2016 and performance of the Company's share price. The award of such bonus being in the absolute discretion of the Remuneration Committee
- The Company may issue the employee with performance shares as determined by the Board from time to time.