



Executive Summary

Introduction

Shumba Coal is a Mauritian company listed on the Botswana Stock Exchange and plans a dual listing on the Stock Exchange of Mauritius. Shumba is a Botswana citizen majority owned and managed coal exploration company. Internationally, coal is currently the most widely used primary fuel, accounting for approximately 36% of the world's electricity production and this situation is likely to remain until 2020. The company's objective is to develop the production and sustainable supply of thermal coal in Botswana. The Group aims at building a portfolio of mining and exploration coal projects.

Nature of business

The Shumba Group is focused on the acquisition and development of highly prospective coal exploration licenses in Botswana. The Botswana subsidiary, Sechaba currently has one prospecting license (PL053/2005) which was recently renewed in July 2012 with the next renewal date in June 2014. Moreover, Shumba Coal has recently entered into an agreement to acquire 4 more licenses which will see it increase its acreage held in Botswana by 500%. However, the nature of the coal exploration business is connoted with high risk as the process is not only capital intensive but the likelihood of finding a quality resource in abundant quantity that could generate sufficient revenue (high IRR) during the mining phase depends on several key factors. How far the company is in the exploration cycle, is there a resource, how confident are they in determining the quality of the resource, will the project grow in the value chain, is the risk/return trade off worth investing in Shumba Coal or in another Junior?

Shumba Coal – Ingredients to success

Management Efficiency

One of the main strengths of the Group is its experienced management team which has over 100 years of mining experience and aims to create sustainable value while taking into consideration variability in market conditions. Moreover, management ensures the Group's adherence to the equator principles which is expected to ease access to finance. The equator principles are a financial industry benchmark for determining, assessing and managing social and environmental risk in project financing. Junior mining companies managed by foreigners face the trouble of being cash strapped due to high G&A relating to travel costs. However, Shumba compared to its peers has low general and administrative expenses (G&A) which accounted for less than 20% of its total expenditure till date. Furthermore, the management of the Company holds around 60% of the shareholding and is determined to steer up the projects up the value chain from exploration to production.

Location of Project

Two important factors to the development of a mine is the availability of water and transport infrastructure. The Sechaba project is located near the mail rail line which links Zimbabwe to South Africa. Its location will facilitate domestic and regional supply of coal and current available carriage stands at 20m tonnes of coal per year. Moreover, the project has easy access to water which is important to mining through large amount of ground water and two river basins which are available to the Sechaba project. The region is also connected to the national grid through a power line which passes through the licence area and is thus ideal for a mine mouth power station.

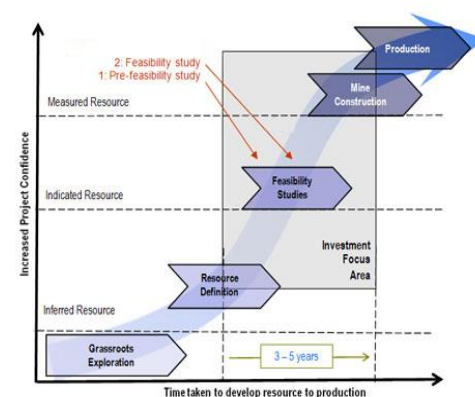
Quality of resource

The Sechaba project was acquired in December 2011 and after successful drilling programme, approximately 1 billion tonnes of JORC compliant good quality thermal coal were confirmed. Coal production represents a major growth opportunity in Botswana and since the country suffered from the decreasing demand in diamonds during the global financial crisis, the government is providing incentives and designed a coal roadmap to tap from the estimated 212 billion tonnes coal deposit in the country. Leading coal industry experts, Wood Mackenzie believes that there is a massive potential power deficit that could emerge in South Africa with a potential capacity shortfall of up to 32,000MW by 2030 (Mauritius produces 600MW of power annually). The power deficit in the southern part of Africa ensures high margins on price of electricity in this part of the world and leads to price of coal to be disconnected from global coal prices.

Key Statistics of Shumba

Share Price (USD)	0.12
Number of Shares (m)	170.9
Market Cap (USD M)	20.5
Year End	June
BSE Code	Shumba

Project Confidence



*Shumba currently at pre-feasibility study stage

Sechaba project location





Positive Scoping Study

Scoping studies are an initial financial appraisal of an indicated mineral resource and it was carried out by TWP, one of the biggest EPCM (Engineering, Procurement and Construction Management) organisations of its kind in Africa, for Sechaba project. The scoping study for the Sechaba project showed a robust project able to economically produce a variety of products at attractive yields. A mine producing a mixture of coal products of Calorific Value 19.5 MJ/kg for domestic power station and a Calorific Value 23.5 MJ/kg for export would lead to a Net Present Value of USD 518million based on the study and the coal price opinion of leading coal industry expert, Wood Mackenzie.

Export Market

The Sechaba project is ideally located to export coal through existing railway lines via Durban port. Transnet is availing export capacity of up to 2 million tonnes annually for Botswana coal currently and is expected to provide greater capacity as from 2016. Moreover, Sechaba is next door to a mine currently exporting coal to Europe and neighbouring countries and Shumba may use existing infrastructure to do same. The main coal importers are China, Japan and India while Germany and UK are the top importers from Europe. Despite China and India being among the top coal producers (China largest producer 2,831Mt in 2011 and India third largest producer 509Mt in 2011), they are also biggest importers of the commodity.

Country Risk

Botswana is a renowned mining destination with an attractive investment climate. The country has a stable and democratic political environment and possesses high quality public institutions, an independent legal system, low level of corruption and a sound financial sector. The low population density in Botswana favours mineral exploration and mining projects.

Valuation

Valuation Methods	USD (M)
Takeover value	62
Market peer valuation	40
Discounted cash flow Valuation	87

Three valuation methods were used to determine the equity value. We believe the most pertinent method is the takeover value which is usually 3 times the market capitalization of the Company. Recent cases include the Indian conglomerate, Jindal which acquired a Canadian company, CIC Energy Corp at USD 116m and Rio Tinto's acquisition of Riverdale Mining in Mozambique. Shumba Coal has a current market capitalization of USD 20.5m, which translates into takeover value of USD 62m.

Projects Timeline

2016	<ul style="list-style-type: none"> • Sechaba Domestic Coal Project - Mine, beneficiate and conveyor belt 1.5Mtpa coal to existing nearby power stations. • Sechaba Energy Project - 300MW - Power station and 1.5 Mtpa coal mine, primarily for Regional Consumers.
2017	<ul style="list-style-type: none"> • Export Coal Project - Mine, beneficiate and export coal by rail via ports in Southern Africa
2020	<ul style="list-style-type: none"> • Domestic Power Project - 300MW - Power station and 1.5 Mtpa coal mine, exclusively for Botswana.

Conclusion

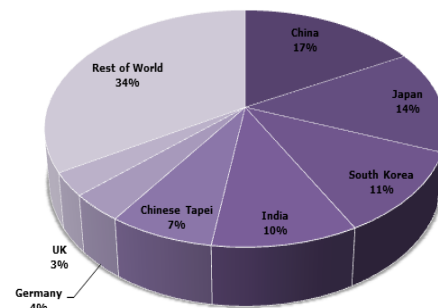
Although Coal exploration can be assessed as being a risky business, Shumba possesses several attributes to develop successfully. Having assessed the risks from a top-down approach, we appraised that Shumba's management was able to mitigate risks across all levels. As such, we do believe that Shumba has in place the right strategy and vision to take the project to the mining stage. Moreover, mining companies move up the value-chain after each milestone reached and investment returns are higher the earlier the investments. In the case of Shumba, it is near completion of the exploration cycle and hence way past the initial high risk phase. On a worst case scenario, Shumba can sell out a minimum of 3 times market capitalization to large multinationals, which are already expressing signs of interest.

Coal Price



Source: <http://www.infomine.com>

Top Coal Importers - 2011



Comparing Botswana with Mauritius

Index	Mauritius rank	Botswana rank
Ibrahim Index of African Governance	1	3
Corruption Perceptions Index	43	30
Doing Business 2013	19	59

Botswana

Geography

Botswana is a landlocked country in Southern Africa, bordered by South Africa, Namibia, Zambia and Zimbabwe. Botswana's terrain is mostly flat desert, savannah and grassland. The country is larger than France and its Capital is Gaborone

Demographics

According to a population and housing census in 2011, the population of Botswana stood at 2,024,904. This makes the country one of the least densely populated with less than four inhabitants per square kilometre on average. The low population density is favourable for mining projects as it minimizes potential population disruption and disputes over land use.



Economic overview

Since its independence in 1966 to the mid-1990s, Botswana was the fastest-growing economy in the world with average annual GDP growth rates of over 10%, higher than the 'tiger' economies of South East Asia. This rapid growth was mainly due to the diamond mining industry, which took Botswana from one of the poorest countries in the world to middle-income status. However, its rapid diamond-led growth reduced to around 5% p.a after the mid-1990s and global diamond sales fell further during the 2008-2009 global financial crisis. GDP growth stood at 3.7% for 2012 due to a contraction of 8.1% in mining output. The fastest growing sectors of the economy were construction, social and personal services, finance and business services.

Political stability

Botswana has a stable and democratic political environment with elections occurring every five years. Since independence, the government has pursued policies regarded as sound and fiscally conservative. The state provides for the basic health and education needs of almost all its people, despite vast distances. The ruling Botswana Democratic Party (BDP) won all elections since independence.

Geography

Region	Sub-Saharan Africa
Area	580000 Km ²
Capital	Gaborone

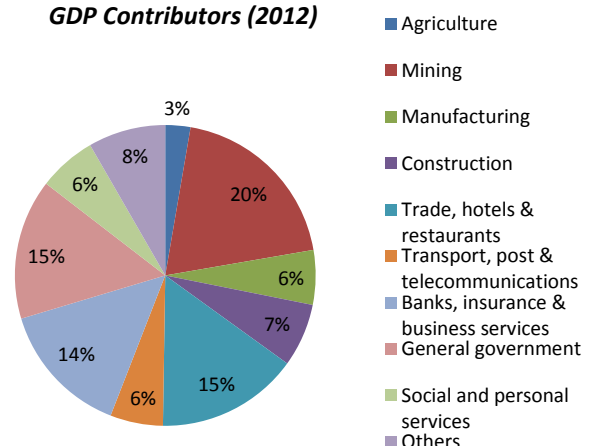
Demography

Population	2.0m
Density (person per sq. km)	3.5

Economy

Inflation	5.8%
Unemployment rate	17.8%
Currency	Pula
GNI per capita (USD)	7,480
GDP growth (2012)	3.7%

GDP Contributors (2012)



Governance

Botswana is considered to be one of the leading countries in Africa in respect of governance with high quality public institutions, an independent legal system, and a low level of corruption which has been sustained over a long period of time.

Corruption

Botswana is seen as one of the least corrupt African countries and has a separate body specifically set up and designed to deal with corruption problems namely the Directorate on Corruption and Economic Crime (DCEC).

Social stability

Botswana is considered as one of the most peaceful countries in Africa. The country has never been to war, nor has it experienced any major civil strike.

Botswana's economic performance through the mining sector has been the basis for widespread social development.

Labour

Botswana has a young, educated, motivated and mainly English-speaking workforce, and the country has excellent industrial relations without confrontational trade unions. Moreover, the unemployment level of 18% clearly demonstrates that Botswana is not labour-scarce.

Financial sector

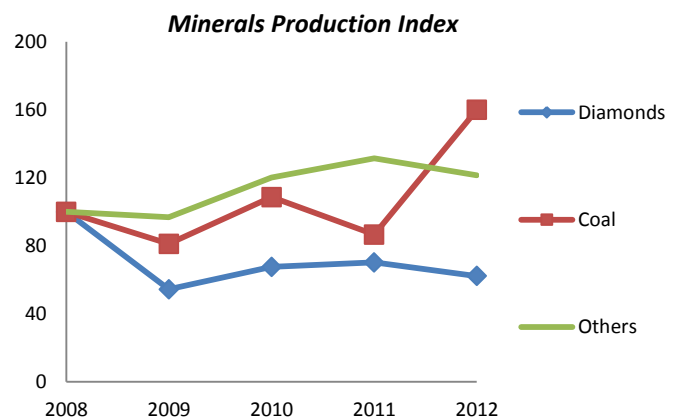
Botswana has a sound financial sector which witnessed growth of 18% during the last three years. According to the International Monetary Funds, Botswana's banking system is profitable and well-capitalized with relatively low nonperforming loans and adequate buffers to smooth shocks.

Fiscal incentives

Botswana offers a great investment climate to do business. Botswana has no foreign exchange controls and allows full repatriation of profits, investments and capital gains, free of withholding taxes. Among its many incentives are duty free import of all capital equipment for all companies and duty free import of raw materials for exporters. Botswana was recently awarded grade A2 and A by rating agencies Moody's and Standard & Poor's. It ranks among the top 3 African countries in measures of investment and business climate according to the World Bank and the World Economic Forum.

Coal Mining

The Government of Botswana recently developed a national strategy on coal development, the Coal Roadmap (2012), as coal presents a major growth opportunity for Botswana with estimated coal deposits amounting to 212 billion tonnes. Botswana has the capacity and potential to produce up to 90m tonnes of coal per annum reducing the overreliance on diamonds and compensating for the power deficit in the region. On a compounded annual growth rate basis (CAGR), during the last 4 years, diamond production (CAGR: -11.5%) has been decreasing approximately the same percentage as Coal production (CAGR: 12.5%) was increasing.

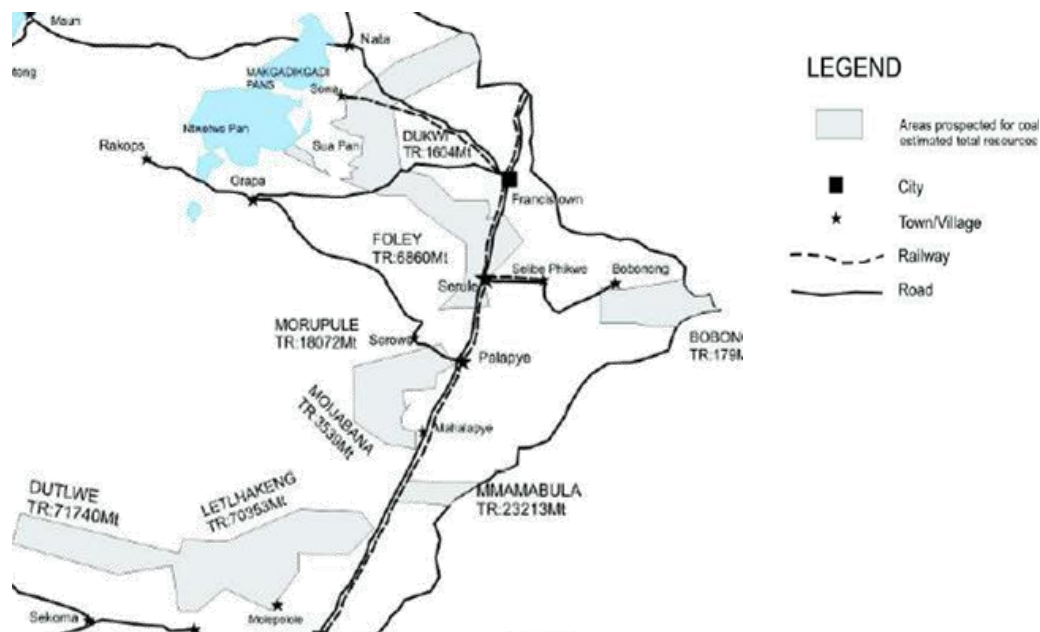


Industry

Coal resources

Botswana which is known to be the world's largest diamond producer is adopting a diversification route towards coal production. Coal represents a major growth opportunity for the country with estimated coal deposits of 212bn tonnes out of which 7.1bn tonnes are measured reserves.

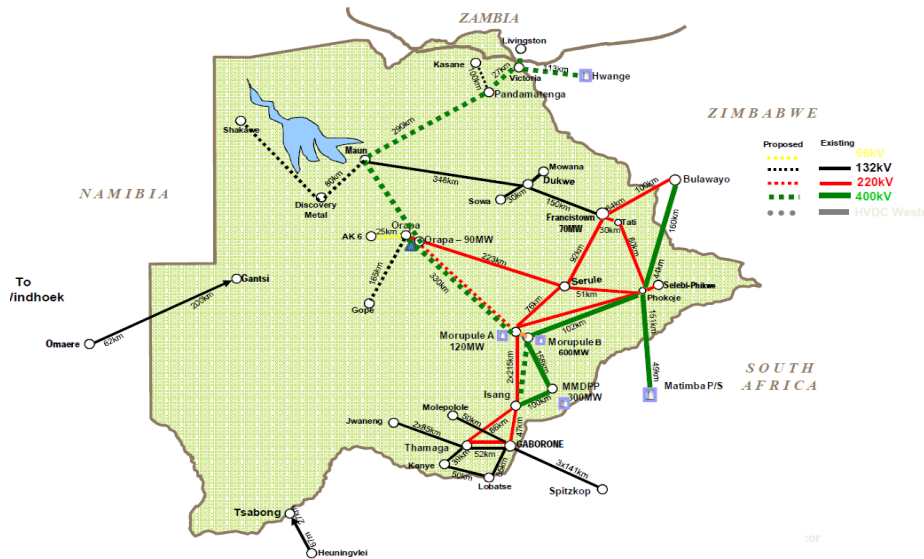
With the escalating oil and energy prices since 1970's, interest in the coal resource of Botswana has attracted several companies which led to major part of the country being studied. Very large resources of high ash, medium calorific value, low-medium quality bituminous coal have been confirmed to exist in Botswana. The large unexploited reserve is concentrated on the Morupule, Mmamabula and Moijabana/Kgaswe areas. The only operating coal mine in the country is at Morupule, located in Palapye which has the best quality coal. The Mmamabula area as well contains coal of similar grade to that of Morupule.



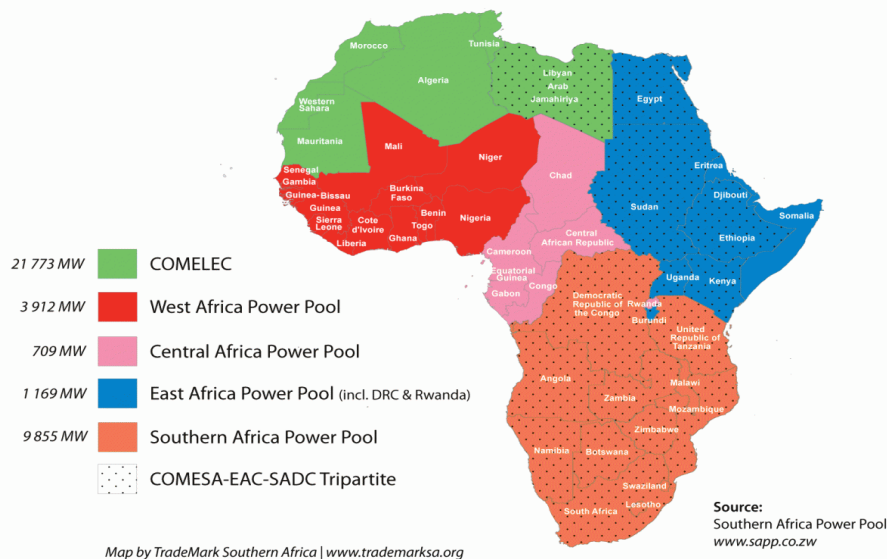
The coalfields are located in the vicinity of existing railway and power line infrastructure. The Morupule coalfield is already connected to the main railway line by a rail spur; the kgaswe coalfield is about 40km from the railway line, while at Mmamabula the railway line cuts through the western part of the coalfield.

Regional power deficit

The high growth rate in the South African economy coupled with the lagging investments in new power sources led to severe power shortages in South Africa as ESKOM, the southern African's major generating utility, do not have the adequate supply to meet the increasing demand and end users are looking for alternate outside ESKOM. According to coal expert Wood Mackenzie, there would be considerable potential power deficit which could emerge in South Africa with a probable shortfall of up to 32,000MW by 2030. The possible shortfall in supply of power represents a sizeable ready market for the Botswana's coal industry, making the country a regional power hub. Moreover prevailing transmission infrastructure network supports power exports from Botswana to South Africa through transmission lines as illustrated in diagram below.

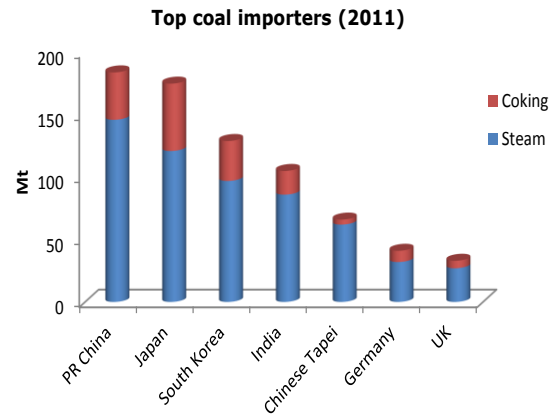
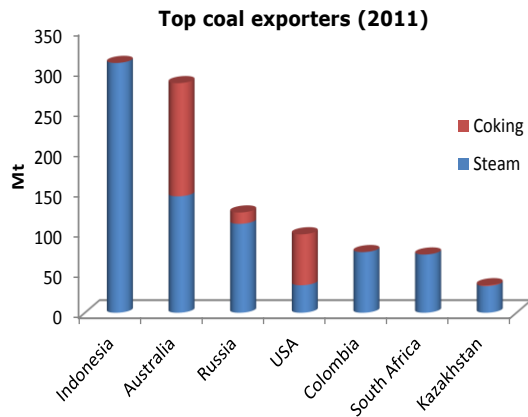


Additionally, on average ESKOM's power tariff adjustments have increased nearly by 150% in the last four years and it is anticipated that this upward trend will be maintained in the next five years. The shortfall in power and attractive returns represent a major growth opportunity to Independent Power Producers and leads to coal prices in Southern Africa to be disconnected to that of global coal prices. The South African Power Pool can enable the export of cheap Botswana power throughout SADC including Angola, Botswana, Democratic Republic of the Congo, Lesotho, Mozambique, Malawi, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Thus, Shumba is well positioned to act as a supplier of coal to the local front.



Export market

Coal is one of the main power sources for generating electricity and plays a vital role for power generation globally. Based on International Energy Agency figures, in 2011 coal was the fastest growing form of energy outside renewable and its contribution to global primary consumption was 30.03% which generated 42% of the world's electricity. Market studies forecast that global demand for seaborne thermal coal will continue to grow intensely, driven by emerging economies of Asia particularly China and India, which currently accounts 67% of global coal consumption.



Source: Coal Facts 2012- World Coal Association

Given the huge coal resources available at Botswana, the country is well poised to match domestic energy supplies as well become the preferred supplier to the Asian market. Of the identified coal deposits in Botswana, four on the eastern brink of the Kalahari Karoo Basin namely Morupule, Mmamabula, Sese and Mamantswe have the potential to yield 90m tonnes of seaborne thermal coal per annum for export. To note Botswana has already started to export coal via the existing rail network and in order to sustain the export industry the current network will have to be upgraded.

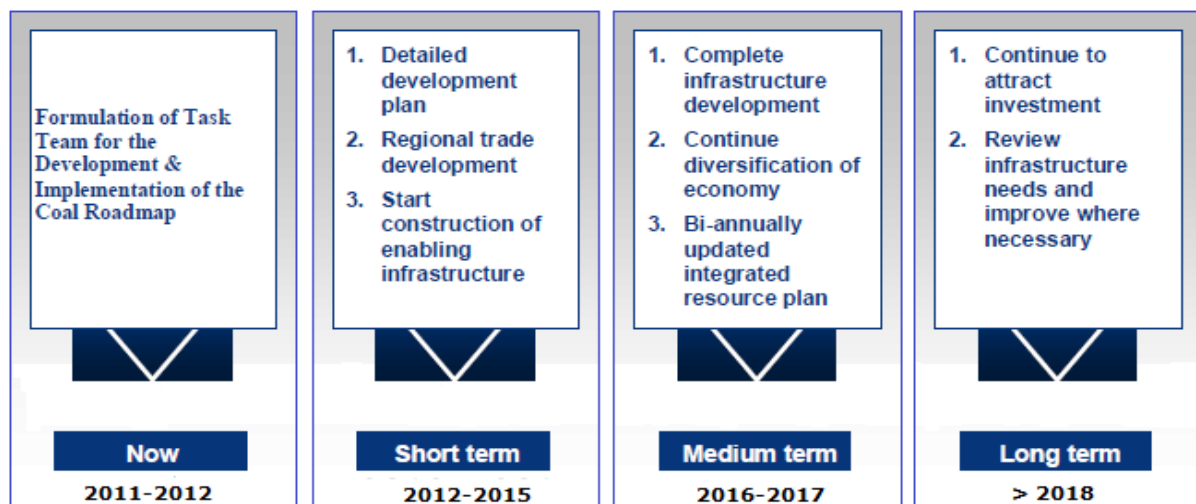
Expansion plan

Incentives

According to Fraser Institute Annual Survey 2012 of Mining Companies, Botswana remains the most desired mining and mineral investment destination in Africa. The attractions of the mining code include:

- ❖ Variable income tax: lower rates charged for less profitable operations
- ❖ Capital allowances: 100% depreciation of capital expenditures
- ❖ Allowable losses: unlimited tax losses can be carried forward
- ❖ Import duty: mining equipment and spares are zero-rated
- ❖ Secure title to mining rights
- ❖ Foreign Exchange Retention
- ❖ Right to market mine product(s)
- ❖ Restrictions on the transfer of mineral concessions have been liberalised
- ❖ International Arbitration of disputes
- ❖ Freedom of commercial operation
- ❖ Reduced taxation for downstream procession

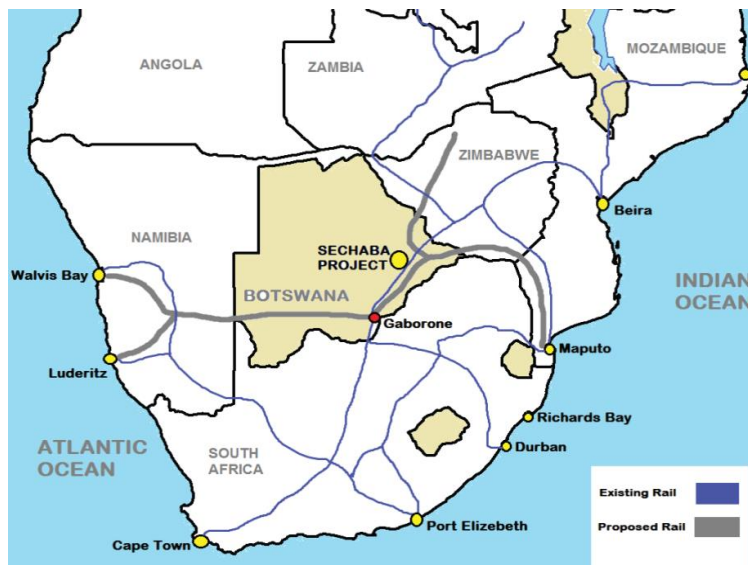
In order to ensure the judicious development of Botswana's coal resources, the government has developed a national coal roadmap backed in January 2012, which outlines an expansion of the coal industry as it targets to become one of the world's top coal exporters. Moreover, the government lifted its moratorium on the issuance of new prospecting licenses that it had imposed while it developed the coal roadmap.



Source: Ministry of Minerals, Energy and Water Resources, THE COAL ROAD MAP PITSO

Export Infrastructure

Botswana is already exporting coal through the existing infrastructure and could potentially increase export by 90m tonnes by upgrading current rails system. Moreover, the Sechaba project which is next to a mine currently exporting coal to Europe, could use existing railway lines via Durban port (current capacity 2mtpa and to reach 10mtpa capacity by 2016) and Maputo port (current capacity 2mtpa) to do the same. The Government of Botswana intends to pursue two infrastructure projects either to Walvis Bay in Namibia or through Zimbabwe to the port of Ponta Techobaine in Mozambique. The participation of the private sector in the construction of the proposed railway projects will play a crucial role and report indicated that the government might seek tenders in late 2013 for the \$11bn Trans Kalahari Railway (will take 5 years to complete) and \$4bn port at Walvis Bay which could take 7-10 years to become fully operational. With the close proximity to the infrastructure, the Sechaba Project of Shumba Coal is ideally positioned to export coal and would benefit from the additional capacity should the proposed projects be realised.



Risk Analysis

Rail Transport

Both proposed railway projects entails environmental risks which can be mitigated should it be carefully evaluated. The main disadvantage of the Walvis Bay is that this route is further from the coal fields of the eastern Kalahari region. However, new potential coal fields explorations are currently being made in the central Kalahari (e.g. Takatokwane, west of the Jwaneng diamond mine). The route to Ponte Techobanine in the Indian Ocean and is closer to the potential export markets in Asia compared to Walvis Bay. Nonetheless Botswana is well positioned to capture the regional market faced with power deficit and railway risk is partly mitigated with the spare capacities available of 1.7mtpa for Botswana to Durban route and 1.9mtpa for Botswana to Maputo route.

Water

Water resources will play a vital role in the development of the coal industry. Good export quality coal will not only involve upgrading of the new rail network but also require considerable volumes of water in order to sustain this industry. Presently, most mines in Botswana use water from boreholes and an estimated amount of 51.1Mm³ groundwater was used in 2012. Under the country's current laws abstracted ground water incurs no marginal cost except the cost of pumping. With several new mining projects likely to develop, the demand for water by the mining sector is expected to double over the next decade and given the arid nature of Botswana, water resources will be under stress of being depleted. The government is investigating for alternatives either to abstract water from Zambezi, the fourth longest river in Africa from which Botswana (the river is at the junction of Namibia, Zimbabwe and Botswana) can take up to 495Mm³ per annum of sourcing it or from the Lesotho Highlands.

Players in the coal industry

Inclusive of Shumba Coal (*newly listed company on Botswana Stock Exchange*); there are currently seven coal-mining companies which are active in Botswana. Based on projected mine developments from existing resources there is a potential of up to twenty-four mines could be opened especially in the Mmamabula and Morupule areas with probable production of 190m tonnes per annum.

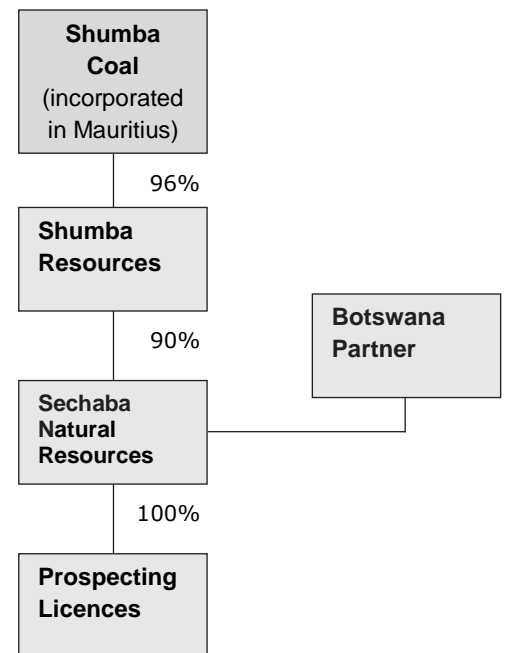
Companies	Brief background
Debswana Morupule	Morupule Colliery Ltd is the only operating coal mine in Botswana with coal production amounting to 3.2m tonnes in 2012. In 2001, Morupule mining lease was extended for further 25 years. In 2012, the colliery started to export Grade A coal to South Africa and Namibia.
Jindal Steel and Power	Jindal BVI Limited is a subsidiary of the Indian major steel and energy company Jindal Steel and Power Limited. Through the acquisition of CIC Energy Corp in 2012, the company gained control on Mmamabula coal field which has a global mineral resource estimate of 2.4bn tonnes. The company will focus on developing a 1200MW power plant and its integrated coal mine project with an anticipated capacity of coal mine being approximately 6.3m metric run of mine tonnes per year.
African Energy Resources	A mining and energy development with offices in Botswana, Zambia, Perth and Guernsey. The company is listed on the Australian Securities Exchange and Botswana Stock Exchange. African Energy has 2.5bn tonnes Sese thermal coal deposit located in the south of Francistown and has two main projects namely the Sese Integrated Power Project and the Sese Export Coal Project. The coal deposit consist of 650m measured resources (<i>of which 320m tonnes are export coal and 330m tonnes are for fuel for the power plant</i>); 1720m tonnes as indicated resources and 150m tonnes are inferred resources. In November 2012, the company exported 1600 tonnes via Maputo using the existing rail and port infrastructure for the first time. This year in April African Energy has acquired Aviva Corporation's Mmamantswe coal project for AUD\$3.5m.
Asenjo Energy	Identified around 10bn tonnes of coal for both export and domestic over three main areas in eastern Botswana. 1.3bn tonnes of thermal coal have been identified at Dukwe and 6.3m tonnes of export quality thermal coal have been identified in Western Mmamabula.
Hodges Resources	Perth-based company is listed on the Australian Stock Exchange. Hodges Resources has thermal coal assets in central east of Botswana with JORC 2.45bn tonnes inferred resource, out of which 1.2bn tonnes is potentially useable for open-cut mining.
Walkabout	Formerly known as Nimrodel Resources, Walkabout is an Australian based company operating under the flagship Takatokwane in southern Botswana. The company has the largest thermal coal asset with JORC classified indicated resource of 748m tonnes raw coal and inferred resource of 6.9bn tonnes.

JORC the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves Code is a professional code of practice that sets minimum standards for Public Reporting of minerals Exploration Results, Mineral Resources and Ore Reserves.

A Botswana National Majority Owned Mining Company

Shumba Coal is a Mauritian company listed on the Botswana Stock Exchange; and is a Botswana citizen majority owned and managed coal exploration company, which is a first of its kind. Its current market capitalization is USD 20.5 Million, which in size puts it in the top 3 Botswana focused listed coal companies. It has raised USD 2.5 million in the last year in addition to the 7.1 million Botswana Pula (around USD 850k) raised in its recent listing on the Botswana Stock Exchange. The group's strategy is the acquisition and development of a portfolio of coal exploration assets in Botswana, with a clear vision of moving up the value chain towards sustainable coal production to cater for the growing energy demand in Botswana and in the region. Shumba Group is partnered with Bridge house Capital and its subsidiary, Independent Power Corporation PLC, where together, they envisage developing a power station and becoming an Independent Power Producer by 2015-2016.

The nature of the exploration business makes it capital intensive and the discovery of adequate resources hence depend significantly on several factors, predominantly the expertise and quality of the company management, which directly impact on the efficient deployment of resources. Shumba Coal has a management team with over 100 years of mining experience.



Alan Clegg, the Chairperson is a British and South African citizen is a mining industry professional with over 30 years experienced in mining and minerals projects in over 150 countries worldwide. He is a recognized mining technical assessment, reporting and project valuation expert and had been involved in feasibility studies and the construction of over 60 mining and minerals projects with a combined value in excess of USD8bn over the last 30 years. **Alan Golding**, the Consultant Geologist has over 35 years in all sections of exploration, specializing in Coal, Coal Bed Methane and underground Coal Gasification. He is a Registered Natural Scientist in RSA and has signed off on reports regarding the exploration works and resources estimates. **Mashale Phumaphi**, the Managing Director of Shumba Coal is a Botswana national who has been focused on sourcing, financing and structuring mineral projects in Africa. He began his career as an engineer with Debswana Diamond Company in Botswana and was formerly an investment banker involved in the financing of mineral projects globally, at a London based natural resources corporate finance firm.



Moreover, the political and social environment within which the mining company is operating is also important. The Botswana Government is well determined to support the coal mining industry, where it has recently developed a roadmap to plan the coal development process. Shumba Coal is a member of the Botswana Chamber of Mines, along with Morupule Coal Mine, Jindal Africa and Anglo Coal, whose role is essentially to influence policy decisions, to better serve the industry.

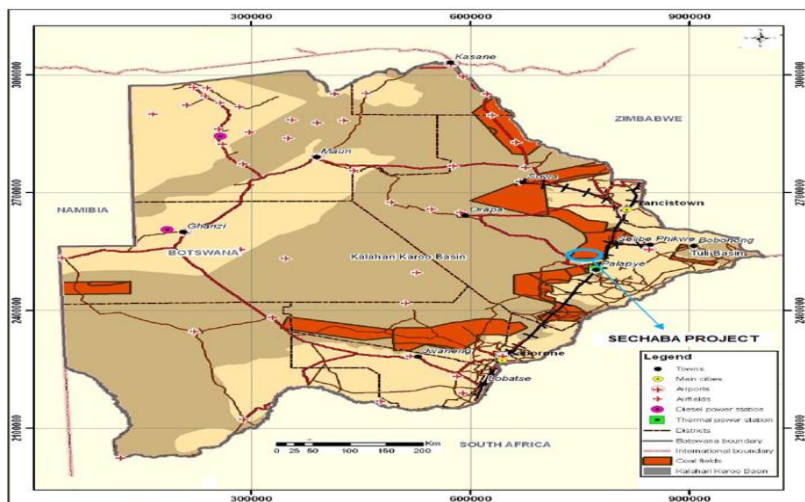
Coal Exploration in Africa has so far been dominated by foreign mining companies, notably from Australia and Canada. High operating expenditures are generally encountered by those firms, given their relatively higher administrative costs, such as labour and travelling expenses. Shumba Coal being Botswana based is at a significant advantage, where till date administrative costs accounted for less than 20% of its total expenditure, with the rest of the funding going directly into drilling/coal exploration.

Furthermore, capital has so far been well managed at each project phase. Shumba Coal is currently able to progress to the Pre-feasibility study phase and is hence not cash strapped. The Company will only require additional capital once it arrives at the Feasibility Study phase, where operating costs are normally higher due to the significant amount of formal engineering work involved. In the aim to deliver sustainable mining projects, Shumba Coal has complied with the

Equator Principles, which is a financial industry, benchmark to assess social and environmental risks in project financing. Therefore, should the Company decide to loan from banks in the future, they are would more likely obtain the funding due to its compliance.

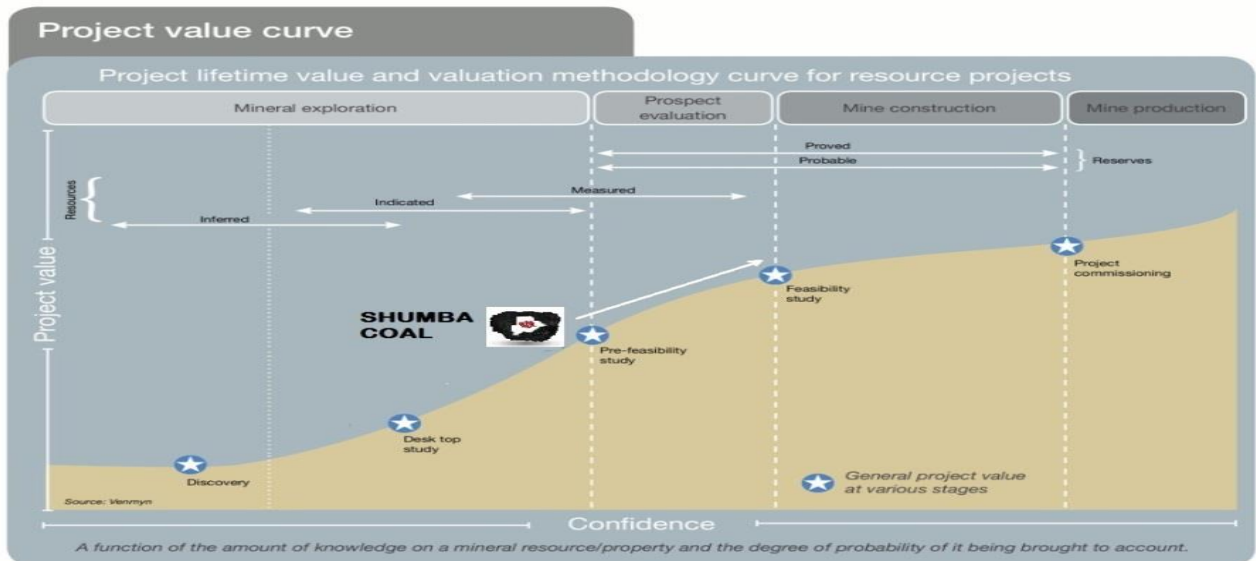
Sechaba Thermal Coal Project

The Sechaba Project is located some 47km north-north west of the town of Palapye. The elevation of the project area is some 1,000m above mean sea level. The boundaries of the respective prospecting license areas as well as the limits of the estimated coal resources have been supplied by Sechaba Natural Resources (Pty) Ltd (part of Shumba Group), who are the owners of the Lechana Exploration Property ("Sechaba Assets"). Sechaba is next door to a mine owned by Anglo American currently exporting coal to Europe and neighboring countries. The Sechaba Asset covers some 247 sq.km in the Central District of Botswana. Due to its proximity to the A1 highway and the existence of large resources of ground water and two river basins, the project is potentially well situated for the development of a mine and a power station. There is suitable rail infrastructure in place as Sechaba is located near Francistown highway and the main rail line linking Zimbabwe to South Africa, which will facilitate domestic and regional supply of coal into Africa (Zambia, Angola, Malawi). Immediate available carriage currently stands at 20 million tonnes of coal per year, where transport network currently exists for routes to South Africa and Mozambique. As mentioned above, proposed new routes to Walvis Bay (Namibia), which is a prospective rail/port facility and Ponto-Techobanine (Mozambique/Maputo) are yet to demonstrate their commercial viability, but offer potential long term solutions for the transportation of more than 100 million tonnes per annum. Up until 2012, Botswana had produced less than 1 million tonnes of coal per year for over 30 years. This year we are looking at a production of over 3 million tonnes. The plan at the Sechaba Project is to build a mine to supply coal to a nearby Power Station by year 2016.



Approximately 1 billion tonnes (JORC Compliant) of good quality export thermal coal delineated, of which around 75% can be deemed to possess economic mineral qualities. Two main coal seam horizons were defined; the Taukome Bright which is suitable for high quality export thermal coal and the Morupule Main Seam (similar to Morupule Colliery) suitable for high quality thermal coal. **5 million tonnes of coal per year is the expected extraction for the Sechaba Project.** Over 140 boreholes have been drilled at Sechaba Project, where Phase 2 drilling programme was successfully completed in Q1 2013. A Positive Scoping Study has been completed over the project area by TWP, which has resulted in the decision to complete a full Preliminary Feasibility Study in the coming 18 months, including a full Environmental Impact Assessment and further resource delineation drilling. In addition to the Sechaba Project, Shumba Coal recently purchased 4 more assets in Botswana for US\$800k. It has entered into a Sale and Purchase Agreement with Australia Stock Exchange listed Impact Minerals Ltd, for the purchase of four energy prospecting licenses in the northern part of Botswana.

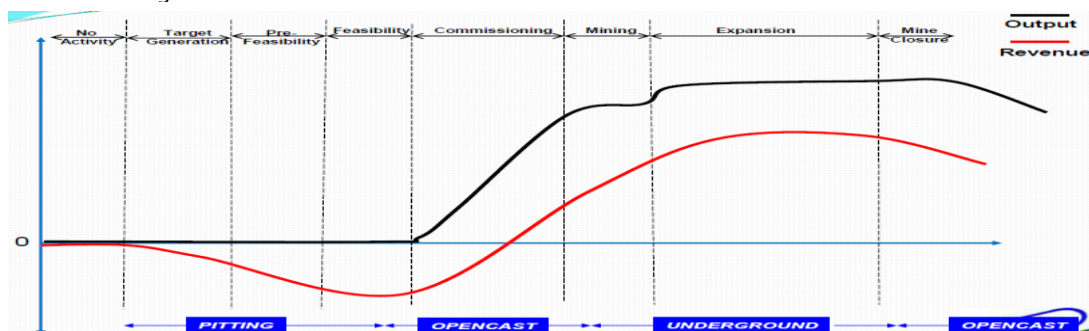
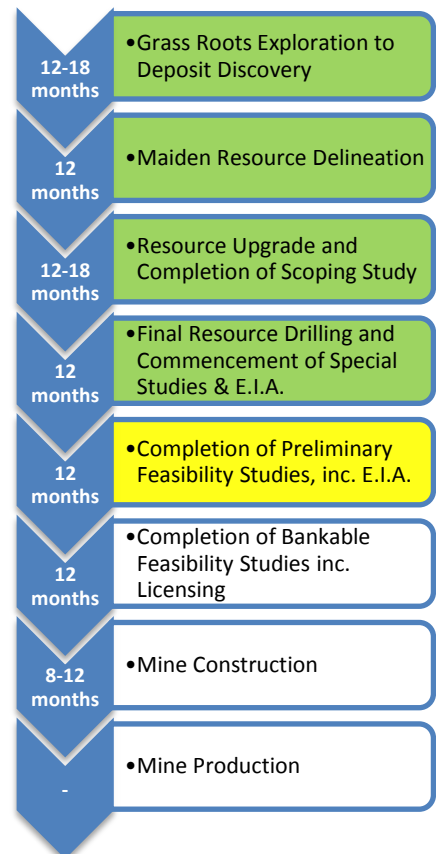
Project Value Chain of Mining Company



The value of a mining company depends significantly on the economic properties of the minerals being extracted. The feasibility studies that are carried out from the Mineral Exploration until Mine Construction stage vary in the depth of inquiry and reliability of the geological properties present. Hence Clarity and Certainty of the economic viability of the coal extracted are improved as we moved down the value chain. Inferred resources translate in 10% chance or greater that mineralization is present in the extracted coal. Indicated resources assume at least 50% chance and Measured Resources assume 90% chance or greater.

During the early stages of drilling, 968mT of coal resources had been discovered at Sechaba, which had confirmed 113Mt of Indicated resources. **4000metres of new drilling has recently been completed, which resulted in the upgrade of coal resources; 67m tonnes of new Measured resources were delineated and total Indicated Resources were increased by over 70% to 194m tonnes; bringing total Measured and Indicated resources to 261m tonnes of coal. Also, the reportable JORC Compliant Gross In-Situ coal was increased by 19% to 1.14bn tonnes.** Junior exploration mining companies like Shumba Coal are risky in nature, but it is worthy to note that the confidence level at which the company is currently operating is relatively high. Shumba Coal is past the discovery phase and is currently undertaking a Preliminary Feasibility Study, where it is 3 years away from production. The value of the company shall naturally inflate much further as we progress past feasibility study phase, when revenue generation now becomes certain to investors.

Sechaba Project Timeline



Valuation

As mentioned in the previous section, Shumba Coal is currently operating at a relatively high confidence level as per the mining project value chain. The scoping study has allowed the company to assess the quality of the coal being extracted from the ground at Sechaba and from there an estimate about the NPV of Shumba Coal was carried out through a Discounted Cash Flow valuation method. However, the DCF method takes a very long term view of the company, given the life span of coal resources. A Peer Group Comparison with other junior mining companies in Botswana and South Africa is also illustrated below so as to give an idea of their potential average enterprise value, based on the number of coal tonnes which can be exported in the future. We acknowledge that Shumba Coal is at least 3 years away from coal production and exportation; hence a fairer assessment of the company's value lies in the worth of its coal assets underground. Thus, some examples of recent acquisitions of junior mining companies are also mentioned. *The total capital estimate for this project is at USD 211.6million, where mining infrastructure (surface & underground) costs are approximately 64% of the total capital estimate.*

Takeover Value

Junior mining companies in Botswana have been bought at 3 times their company value, based on the tonne of coal underground. Examples include the Indian conglomerate, Jindal acquiring a Canadian company, CIC Energy Corp at USD116m, as well as Rio Tinto's acquisition of Riverdale Mining in Mozambique, for AUD\$3.5bn. *Given that Shumba's current market value stands at USD20.5million, the value at which it can be sold actually can be assumed to be at least around USD62million.*

Market Peer Valuation

Company	Resource (millions of tonnes)	Yield to Produce export quality coal	Export Tonnes (millions of tonnes)	Enterprise Value (\$)	Enterprise Value/ (Export Tonnes)
Aviva	895	22%	197	\$ 13,952,764	\$ 0.071
Res Gen	2800	80%	1658	\$ 54,410,500	\$ 0.033
African Energy	2700	56%	1512	\$ 52,204,000	\$ 0.035
Universal Coal	1935	80%	1146	\$ 23,306,800	\$ 0.020
CIC Energy	2397	80%	1918	\$ 93,077,700	\$ 0.049
Average					\$ 0.052
				Implied Value of Shumba Coal	
Shumba Coal	968	80%	774	\$ 40,268,800	\$ 0.052

The above Peer Group Comparison highlights coal exploration projects past Scoping Study phase, located in Botswana and South Africa and the quality of coal they can produce for exportation, i.e., the yield used to wash coal to a 23.5 MJ/kg Calorific Value, suitable for Asia. An average Enterprise Value of USD 0.052 cents per tonne of export quality coal was established as at August 2012. Hence the implied market value of Shumba Coal is roughly USD 40million. *As at to date, Shumba Coal's current market capitalisation is USD 20.5million, hence a current price per tonne of USD 0.026, representing a 49% discount.*

Discounted Cash Flow Valuation

The DCF valuation method takes into account the following estimates; the production of 4800ktonne/annum for 24 years, unit cost of \$17.64 tonne of coal mined and discount rate of 7.5%. For a mine producing a coal product of Calorific Value 19.5 MJ/kg alone for domestic power station use, leads to a Net Present Value of USD291million. The Morupule Colliery seam from Sechaba has a calorific value of around 18.6 MJ/kg, based on Indicated resources. Production of coal products of Calorific Value 19.5MJ/kg for domestic power station and a Calorific Value 23.5MJ/kg for exports, leads to a Net Present Value of USD518 million. The Taukome seam to be used for export purpose has a calorific value of around 21.7MJ/kg. *Given that the company has decided on a capital split of 70% in debt funding and 30% in equity funding, we are looking at a potential equity value range of USD87-155 million.*

Important Notice: This report in its entirety has been prepared to assist in informing interested parties of the nature of the business of Shumba Coal Ltd and is not to be considered as an offer, invitation to subscribe or purchase any securities of Shumba Coal Ltd. Investing in Shumba Coal Ltd involves a certain degree of risks and an investor should ensure that these risks have been fully assessed and understood prior to any investment by consulting a financial advisor, accountant or any other professional body in this respect.