

Ncondezi Completes Mine DFS and Focuses Phase 1 Development on 300MW Integrated Mine and Power Plant

Highlights

- Mine Definitive Feasibility Study ("DFS") confirms technical and economic viability of a large scale, long life, open pit mine supporting an integrated 1800MW power plant project
- Ncondezi to implement phased development approach rather than pursue immediate development of the large scale, high capital expenditure project as defined in the Mine DFS
- Phase 1 of project execution focused on 300 megawatt ("MW") integrated mine and power plant project ("300MW Project")
- Application for Mining Concession to be submitted to Ministry of Mineral Resources of the Republic of Mozambique ("MIREM"), a key prerequisite for project development
- Negotiations on 300MW bankable Power Purchase Agreement ("PPA") with Electricidade de Mozambique ("EdM") underway
- Initial discussions with EPC contractors indicate potential availability of up to 85% debt financing for 300MW Project
- Power permitting process has started with negotiations on Power Framework Agreement with Ministry of Energy ("MoE")

4 December 2012: Ncondezi Coal Company Limited ("Ncondezi" or the "Company") (AIM: NCCL) is pleased to announce positive results from the Mine DFS on the Ncondezi Project, located near Tete in Mozambique, which together with the Power DFS (announced on 13 September 2012) confirm the technical and economic viability of a large scale, integrated thermal coal mine and 1800MW power plant ("Large Integrated Project") producing domestic and export grade coal over a 25 year life of mine.

In light of current market conditions Ncondezi believes a phased development approach will deliver a more achievable, prudent and financeable path to production than the immediate development of a larger scale, higher capital intensive project as defined in the Mine DFS.

300MW Project and Development Rationale

Ncondezi believes the optimum route for the first phase of development is a 300MW integrated mine and power plant project which will use existing transmission capacity to meet local demand in the North of Mozambique. This scenario maximises Ncondezi's control of project delivery in a reasonable timeframe and is not reliant on the development of third party infrastructure projects.

The 300MW Project comprises a 2Mtpa run-of-mine ("ROM") open pit mining operation with an average strip ratio of 1.0 (tonne to tonne) producing 1.2Mtpa of 17MJ/kg (NAR) domestic grade thermal coal product at an average yield of +55% for supply to a 300MW mine mouth power plant.

Capital expenditure estimates and operating costs for the 300MW Project are being further refined and the results are expected in Q1 2013. Excluding an export coal component in the first phase has already presented a number of cost saving opportunities through smaller mining and equipment requirements and higher average product yields. Ncondezi is now exploring a number of options to minimise capital outlay and operating costs further, including assessing contractor versus owner operate mining and evaluating the detailed quotes from engineering, procurement and construction ("EPC") firms based on the power plant Minimum Functional Specifications ("MFS"), which have been distributed for quotation.

The 300MW power plant will be a base load electricity provider, using Circulating Fluidised Bed ("CFB") technology, and sell electricity to EdM, the state owned utility company, via an existing transmission network 90kms from the plant to meet current demand on the Northern Grid. Construction of the power plant is targeted to commence in 2014 with commissioning anticipated in 2017.

As previously announced, the 300 MW power plant requires US\$504 million of capital expenditure over a 36 month construction period and meets the +20% IRR hurdle requirements for infrastructure projects. As a base load electricity provider, the power plant will generate a consistent revenue stream and the Company has received strong indications of the potential availability of project finance, ranging from 70% to 85% debt financing.

Negotiations on a 300MW bankable PPA with EdM are underway, and the MFS for both the 300MW power plant and the 400kV 90km long power transmission line have been distributed to selected EPC firms for tender. The MFS quotes are expected in Q1 2013.

Permitting

Ncondezi will now submit its application for a Mining Concession to MIREM, which is a key prerequisite for the 300MW Project to commence mining construction and operations. Approval is expected in H1 2013.

A first draft of the Power Framework Agreement has already been received from the MoE and the Company is targeting final agreement in H1 2013.

Strategic Partner Search

The Company, through its advisors Standard Chartered Bank, remains engaged with over 20 parties who have strong interest in both the power and coal export potential of Ncondezi. During Q3 2012 Ncondezi and Standard Chartered Bank conducted a pre-marketing roadshow to meet with potential strategic partners in Korea, China and India. This roadshow generated significant interest, with a number of parties having since attended site visits and requested further detailed information. In conjunction with the site visits, potential strategic partners were given access to key Ncondezi technical personnel and consultants specifically to learn more about the unique coal geology of Mozambique. Given the strong interest in the power component and favourable Mozambique and southern African power sector dynamics, the Strategic Partner Search has been broadened to include international integrated power producers and developers as well as financial investors in the power sector.

The completion of the Mine DFS, combined with the Power DFS, now provides key technical and operational information to the participants in the Strategic Partner Search and represents a significant milestone to take the process forward.

Nigel Walls, CEO, commented *“Mozambique is the fastest growing electricity market in southern Africa and the largest exporter of power to South Africa. We believe that focusing on a 300MW integrated mine and power plant project as a first phase of development is the best route to bring the Ncondezi’s Project into production by 2017.*

The 300MW Project has unique advantage over other potential power projects in the region as it is solely dedicated to meeting Mozambican demand, it is scalable in 300MW units ultimately to 1800MW, it is close to existing transmission infrastructure with available capacity and, perhaps most importantly, it is not dependent on the development of rail and port infrastructure projects.

Power plant projects offer attractive financing solutions compared to mine development projects as they generate stable cash flows that can support high levels of debt financing. We have been very encouraged by the initial expressions of interest from EPC firms in constructing the 300MW Project, which in some cases have also indicated an appetite to take a minority equity position in the project. These expressions of interest will be considered within the broader context of our ongoing Strategic Partner Search, which has been broadened to international integrated power producers and developers.

Our top priorities for the first half of 2013 are to optimise the capital expenditure for the 300MW Project and progress the power framework agreement and a bankable PPA in order to initiate project funding during the second half of the year.”

Power Strategy Aligned to Mozambican Government Policy

The 300MW Project is closely aligned to the Mozambican Government’s stated objective of accelerating the electrification of the country and increasing access to electricity as the country is only 20% electrified. Mozambique currently has the largest percentage demand growth in southern Africa, forecast to grow by 2000MW over the next 10 years. Over recent years the southern Africa power sector has benefited from

increasing de-regulation and an upward trend in electricity tariffs, which have increased by up to 50% in the region as a whole and by 10.3% in Mozambique over the past two years, driven by a growing shortfall in generating capacity and continually increasing high demand.

Development of Export Product

Production of an export thermal coal product and associated capital expenditure will be initiated only when rail and port infrastructure in Mozambique is sufficiently advanced. This approach has the dual benefit of an expected reduction in the start-up capital outlay for the mine and reduces Ncondezi's reliance on third party rail and port infrastructure development for project operations to begin.

Since initiating the Mine DFS in Q3 2010, the macro-economic environment has changed considerably with capital constraints for mine development projects and the weakening of seaborne thermal coal prices. The developing coal basin around Tete has not been immune to these changes and the large, capital intensive export rail and port infrastructure projects primarily for coking coal projects are developing more slowly than originally envisaged.

Summary of Mine DFS

The positive results of the Mine DFS, independently prepared by TWP Holdings (Pty) Ltd, confirms the large scale, long life operational capability of the Large Integrated Project, which combined with the 1800MW power plant has a total NPV in excess of US\$1 billion.

The Mine DFS envisages an open pit, truck and shovel mining operation supplying domestic grade coal to an 1800MW mine mouth power station and producing export grade thermal coal over a 25 year life of mine ("LOM") from only two of the six resource blocks on the Ncondezi Project licence area. The first 19 years mine life is focused within the South Block, after which the North Block is opened up to support production.

The scope of the Mine DFS scope was designed to meet the ramp up in power plant coal feed requirements as power generating capacity is expanded from 300MW in 2017 to 1800MW in 2023 in phases of 300MW units, with a 25 MJ/kg (NAR) export thermal coal product produced as a secondary product. However, in the interest of delivering a more achievable path to production, Ncondezi will initially develop the 300MW Project without an export thermal coal product. Details of the Mine DFS on the original combined domestic and export thermal coal project are outlined below.

Mine Capital Expenditure Estimate for Large Integrated Project

Key Parameters	
LOM	25 years
Ramp up period	8 years
Construction period	18 months
Blocks mined	South & North
RoM	18 Mtpa
Strip ratio	1.7 t:t
Total Yields	45.9%
- Domestic (17CV)	51.0%
- Export (25CV)	28.9%
Total Product	8.2 to 10.2 Mtpa
- Domestic (17CV)	7.2 Mtpa
- Export (25CV)	1 to 3 Mtpa
Average LOM costs	
- Mine gate	21.3US\$/t
- Rail and port	30.0US\$/t
Life of Mine Capex	US\$627 million
IRR	17%

Power Plant Capital Expenditure Estimate for Large Integrated Project

1800MW*	
Power Plant Capex Estimate**	US\$2.25 billion
Transmission Capex Estimate	US\$247 million
Post tax Project NPV(10%) incl. transmission capex	US\$1.33 billion

Note:

* Parsons Brinckerhoff DFS financial model

** Minimum Functional Specifications will be distributed to selected EPCs for more accurate quote

Roadmap to Implementation

Ncondezi is now proceeding with the implementation of its roadmap to construction and ultimately production in 2017. All work streams are being accelerated with a view to signing a bankable PPA and commencing project financing in the latter half of 2013.

Key Work Streams for 300MW Project	
Integrated 300MW Project refined capital expenditure estimate	Q1 2013
Coal supply agreement	1H 2013
Power Framework Agreement with MoE	1H 2013
Selection of Owners Engineer and the Operator & Maintenance Contractor	1H 2013
Appointment of Power Plant EPC Contractor	2H 2013
Power Plant Detailed Engineering	2H 2013
300MW bankable PPA	2H 2013
Commence Power Plant Financing	2H 2013
Mine Construction	2014
Power Plant Construction	2014
Mine Commissioning	2016
Power Plant Commissioning	2017

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Ncondezi Coal Company owns 100% of the Ncondezi Project which is strategically located in the Tete Province, one of the world's largest undeveloped coal basins. Ncondezi is focused on developing an integrated 1.2Mtpa open pit thermal coal mine and 300MW base load power plant. The power plant will use modern and proven Circulating Fluidised Bed ("CFB") technology, which has low emissions and will comply with the Government of Mozambique's requirements for air quality. The power plant will be located about 90kms away from the local transmission network and will sell electricity to the Mozambican grid. Construction is planned to start in 2014, with the power plant generating electricity by 2017.