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A Short Form Review and Valuation Report on the Nsele Coal Asset for Delta Mining Consolidated Limited

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Key Features

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Effective Date	30 August 2015
Prepared for	Delta Mining Consolidated Limited (Delta Mining)
Purpose	To provide the directors of Delta Mining with a review of the technical and economic parameters of its Nsele Coal Asset, in order to identify all factors of a technical nature that would influence the future viability of the operation and to highlight the strategic business proposition of Nsele.
Source of Information	In compiling the report, Venmyn Deloitte relied on the information provided by Delta Mining, along with technical reports and information provided by its contractors and associates.
Personal Inspection	Venmyn Deloitte visited the Nsele Project in the Delmas area, Mpumalanga on the 02 September 2015.
Mining Right Status	Ashante Mineral Resources (Pty) Ltd (Ashante), a subsidiary of Delta Mining holds the valid Mining Right (MP/30/5/1/1/5/1492PR) over the Rietkuil 249 IR farm. The Mining Right is valid until 26 September 2041.
Locality	Nsele is located approximately 80km east-northeast from Johannesburg and 8km southeast of Delmas in the Mpumalanga Province, South Africa.
Infrastructure and Accessibility	Nsele is an advanced exploration Project and therefore there is no infrastructure associated with coal mining present on the property. Nsele is traversed by the R50 road and the rail spur to Delmas colliery.
Climate	The climatic conditions at Nsele are generally temperate, with cold winter temperatures. The average annual temperatures for Delmas range from a summer maximum of 26°C to a winter minimum of 3°C. Precipitation records for Delmas record an average annual rainfall rate of 815mm, with most rainfall occurring during summer, usually in the form of thunderstorms.
Geological Setting and Deposit Type	The Nsele Coal Project is situated in the sedimentary rocks of the Karoo Basin (the Karoo Supergroup). The coal seams of the Nsele project form part of the Witbank Coalfield, which is restricted to the Vryheid Formation of the Karoo Supergroup.

Introduction

Venmyn Deloitte (Pty) Ltd (Venmyn Deloitte) was requested by Delta Mining Consolidated Limited (Delta Mining) to complete a Short Form Review and Valuation Report that provides a high level-level review of the technical and economic input parameters for Delta Mining's Nsele Coal asset, referred to from here as the Nsele Project which is situated near the town of Delmas in the Mpumalanga Province, South Africa (Figure 1).

This Short Form Review and Valuation Report serves to identify the current value of the Nsele Project and describe it in terms of historic and recent exploration, which would have bearing on the techno-economic value of the asset.

Corporate Structure

Delta Mining is held by Anglo African Capital Limited, the majority holding company, in conjunction with the Avalon Trust (Avalon) and Mikakor CC. Ashante Mineral Resources (Pty) Ltd (Ashante), a subsidiary of Delta Mining, as well as Ashante Investment Holdings (Pty) Ltd (AIH) hold the valid Mining Right (MP/30/5/1/1/5/1492PR) over the Rietkuil 249 IR farm. The corporate structure of Delta Mining is presented in Figure 2.

Figure 2: Delta Mining Corporate Structure

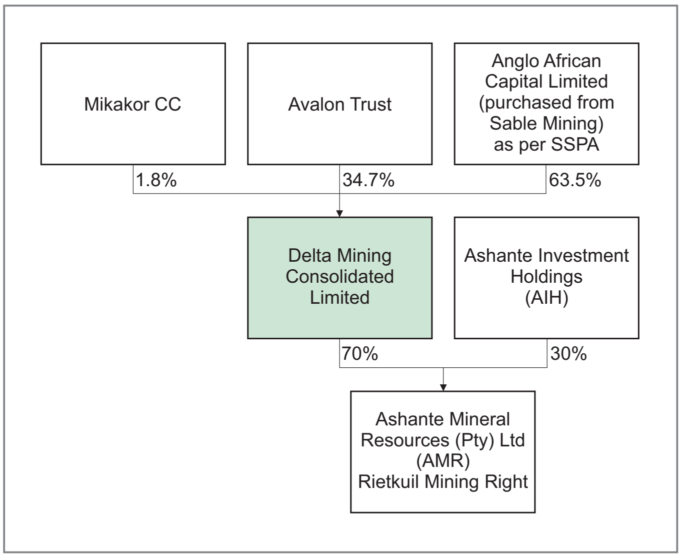
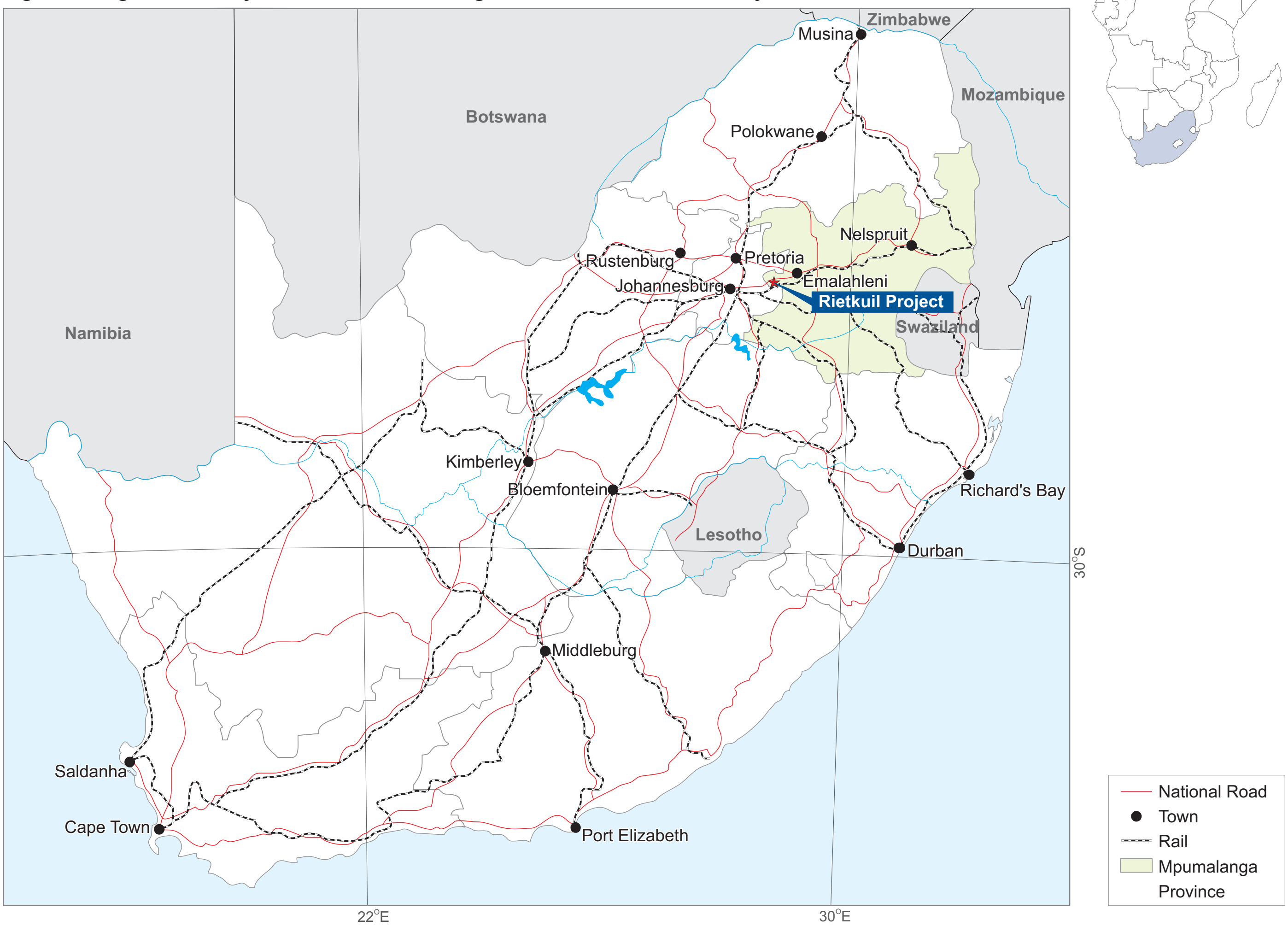


Figure 1: Regional Locality of South Africa showing the location of the Nsele Project



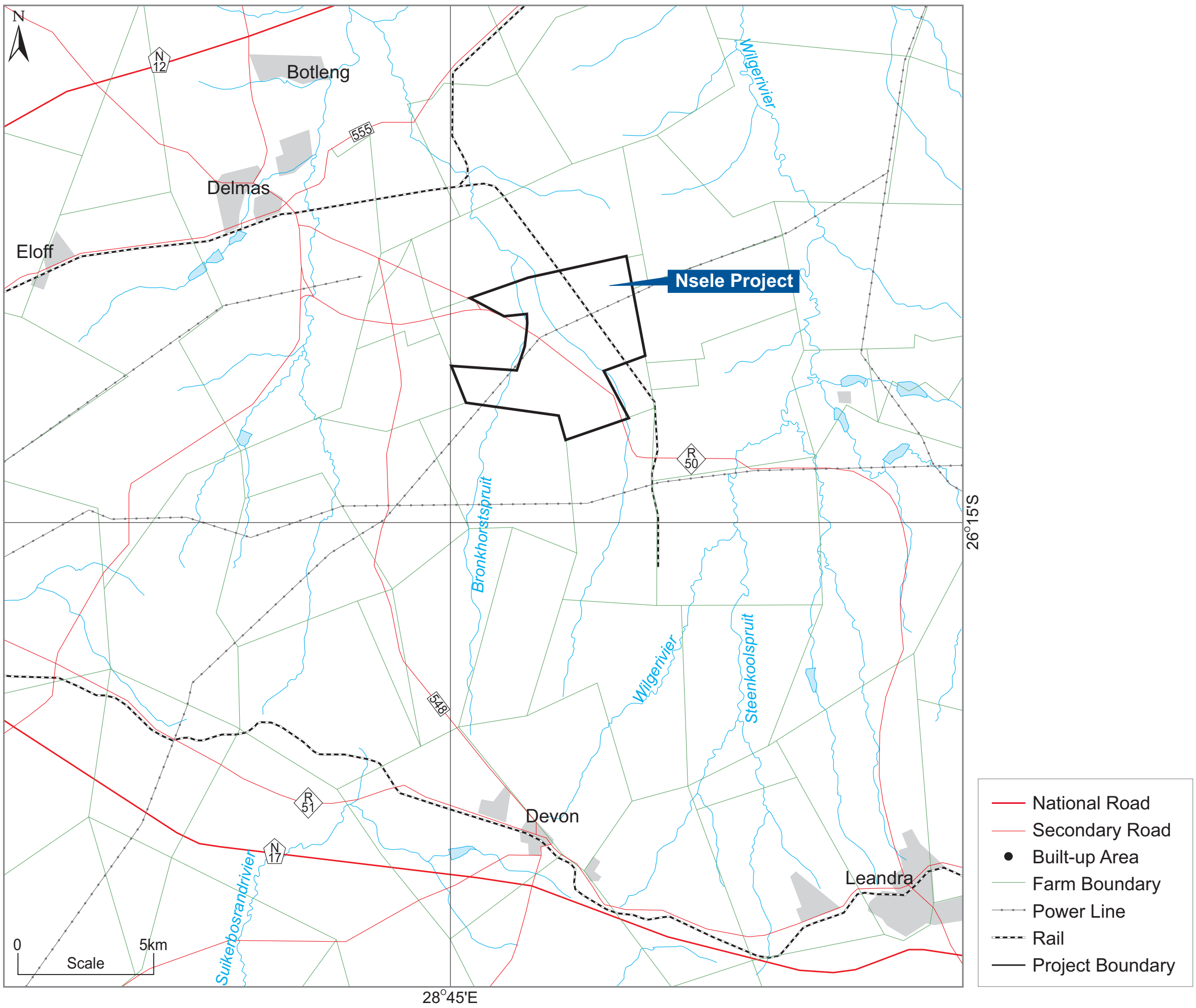
Locality, General Infrastructure and Accessibility

The Nsele Project is situated approximately 80km east-northeast from Johannesburg and 8km southeast of Delmas in the Mpumalanga Province, South Africa (Figure 1). The Nsele project is situated on the Farm Rietkuil 249 IR (excluding portions 1 and 2). Access to the Nsele Project is by the main R50 tarred road from Delmas travelling in a southeast direction towards Leandra. Well maintained gravel farm roads and tracks pass through the property (Figure 3).

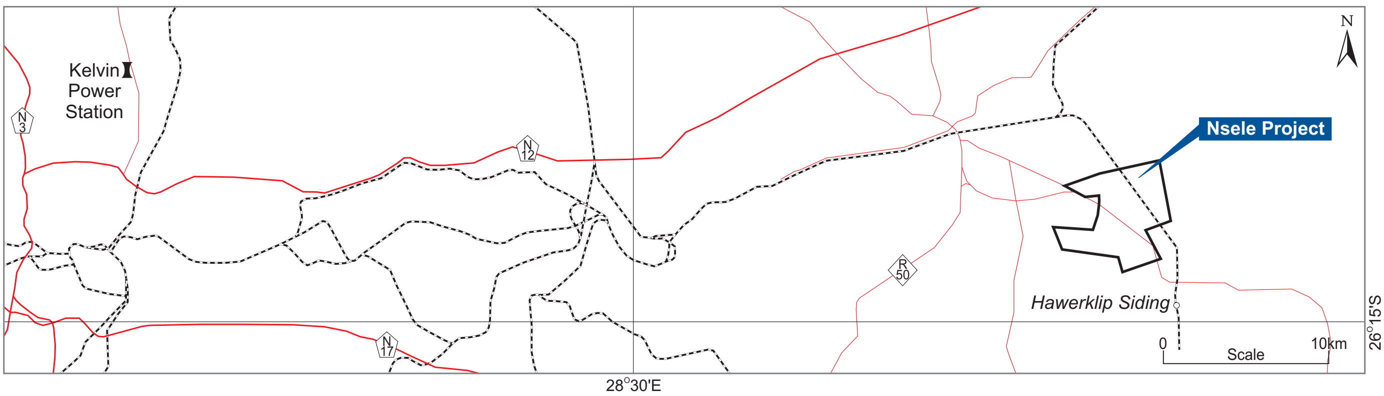
A rail spur traverses the Rietkuil property to the Delmas colliery. This rail spur is of strategic logistical importance to the success of the Nsele Project as the saleable coal produced at Nsele may be transported by rail for the domestic and export market. During the feasibility study conducted in 2009/2010, three possible options were explored in order to access the rail spur:-

- sharing the Leeuwpan siding with Exarro's Leeuwpan mine;
- utilising the Hawerklip siding; and
- construction of a rail siding on Nsele.

Figure 3: Location and Local Infrastructure of the Nsele Project



Road and rail transport to Kelvin Power Station



The Nsele Project is a Pre-Development Project at an evaluation and feasibility stage and therefore there is no infrastructure associated with coal mining present on the property. The necessary infrastructure and services required for the efficient operation of the mine and coal handling and processing plant will have to be constructed prior to mining taking place. Potable water for the running of the mine will be obtained from boreholes. Water may also be obtained from and as a result of pit dewatering or altering the bed, banks, course or characteristics of the wetland areas as part of open pit mining activities. The local infrastructure surrounding the Project is shown in Figure 3.

Power supply over the Nsele Project area is currently only sufficient for domestic rural household supply. A number of these powerlines pass through the project area. Additional power infrastructure will need to be installed to supply the Nsele Project prior to mine development.

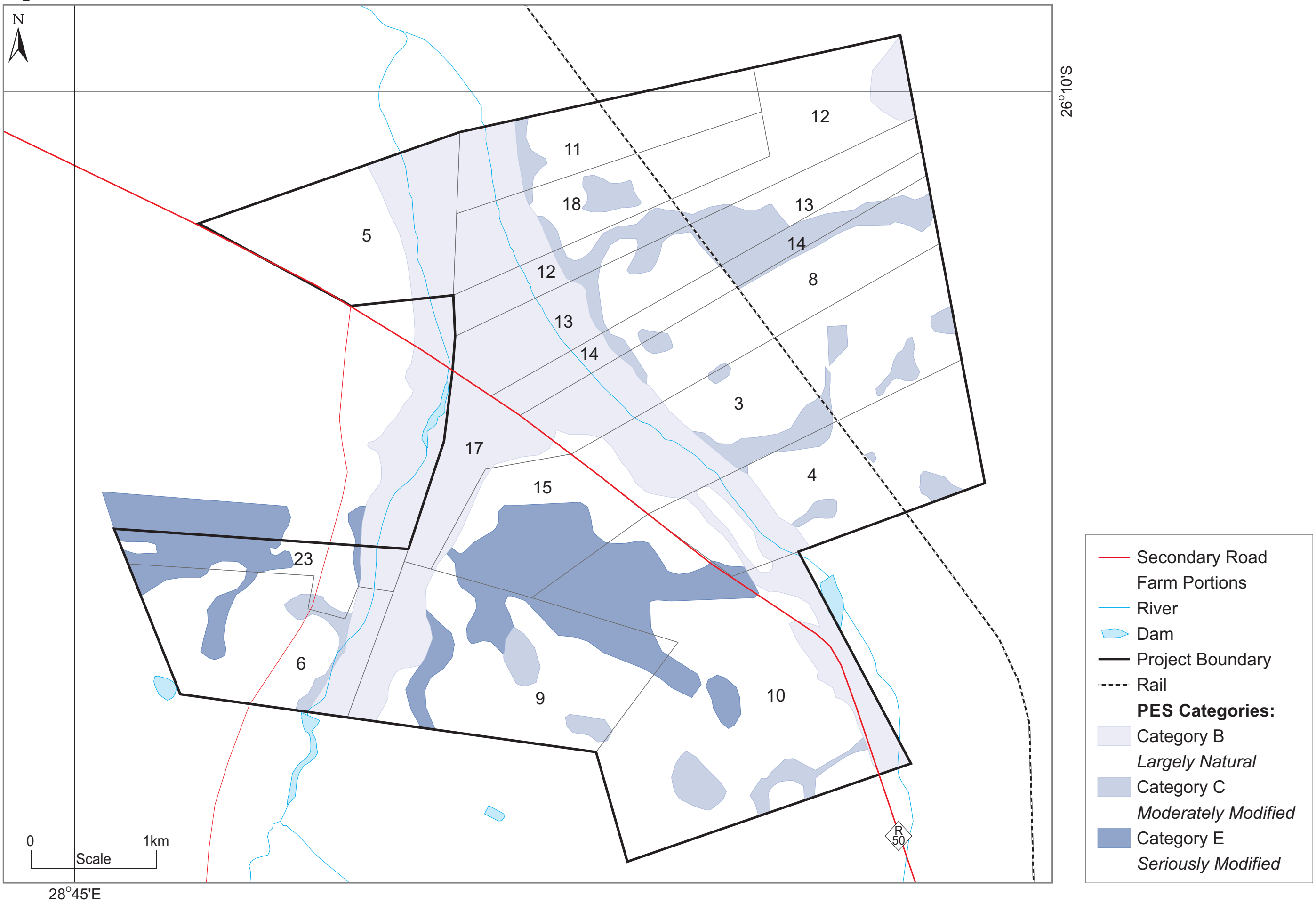
Topography and Climate

The Nsele Project is situated within the gently undulating hills of the Highveld at an average elevation of 1,569 metres above mean sea level (mamsl). The elevation in the entire Delmas region ranges from 1,400mamsl to 1,700mamsl, with most of the region being in the range of 1,500mamsl to 1,600mamsl, with flat (0° to 3°) to moderately dipping (4° to 15°) slopes.

The primary drainage of the region are the Olifants, Wilge and Suikerbosrand rivers. The Bronkhorstspruit River and a perennial tributary cross the Nsele Project. Spatial Ecological Consulting CC (SPEC) was approached by Delta Mining to conduct a wetland assessment for the proposed opencast coalmine on the Nsele Project. Three wetland hydro geomorphic types were identified by SPEC, namely hillslope seepage wetlands, unchannelled valley bottom wetlands and pans. The wetlands on the Nsele Project are classed according to their present econological state and are illustrated in Figure 4. The area where mining is prohibited on the Nsele Project due to wetland sensitivity is illustrated in Figure 4.

The climatic conditions at the Nsele Project are generally temperate, with cold winter temperatures. The average annual temperatures for Delmas range from a summer maximum of 26°C to a winter minimum of 3°C. Precipitation records for Delmas records an average annual rainfall rate of 815mm, with most rainfall occurring during summer, usually in the form of thunderstorms.

Figure 4: Classification of Wetlands on Nsele



Legal Aspects and Tenure

Table 1: Ownership and Tenure for Delta Mining's Nsele Project

PROJECT	FARM NAME & NO.	PORTION NO.	AREA (ha)	COMPANY HOLDING RIGHTS	RIGHT TYPE	RIGHT NO.	DATE ISSUED	EXPIRY DATE	SURFACE RIGHTS	STATUS
Nsele	Rietkuil 249 IR	The farm excl. ptn. 1 and 2	2,720	Ashante Mineral Resources (Pty) Ltd	Mining	MP 30/5/1/2/2/428 MR	27/09/2011	26/09/2041	None	Pre Development

Mineral Tenure

On 27 September 2011, Prospecting Right (MP/30/5/1/1/5/1492PR) was successfully converted into a 30 year Mining Right (MP/30/5/1//2/2/428MR), which is held by Delta Mining's 70% subsidiary, Ashante.

Venmyn Deloitte has reviewed a copy of this Mining Right. The Mining Right was executed on 27 September 2011 and unless cancelled or suspended in terms of clause 13 of the Mining Right, or section 47 of the MPRDA (Act 28 of 2002), the Mining Right will continue in force for a period of 30 years, ending on 26 September 2041.

The farm properties which comprise the Nsele Project and its related legal tenure are listed in Table 1 and illustrated in Figure 4.

Surface Rights and Access

The Rietkuil Farm is private agricultural land and is predominantly used to cultivate maize. Delta Mining does not hold any surface rights over the Rietkuil 249 IR farm. Delta Mining has had informal consultations with the various farm owners and all indications are that the land owners are in favour of either selling or leasing the land to Delta Mining. Delta Mining has made certain offers to the surface rights owners, some of which have been verbally agreed.

Negotiations for the acquisition or leasing of the land are on-going, however the cost of the land has also not been finalised.

Royalties

State royalties, as per the Mineral and Petroleum Resources Royalty Act (Act 28 of 2008) MPRRA, are payable.

Country Profile

Political and Economic Climate

South Africa is the most advanced economy in Africa and provides the gateway to Sub-Saharan Africa. It is classified as a middle-income emerging market, with well-developed financial, legal and judicial systems and modern infrastructure.

Since the second half of 2008 and 2009 the country experienced a drop in Gross Domestic Product (GDP). During the 2014 fourth quarter year-on-year unadjusted, real GDP dropped to 1.3% compared to 2.2% in the fourth quarter of 2013 (Statssa, 2014). According to the latest country statistics the year-on year unadjusted real GDP has increased to 2.1% for the first quarter of 2015.

South African economic policy is fiscally conservative but pragmatic. The country attempts to control inflation by keeping it within an acceptable range (3% - 6%), maintains a budget surplus, uses State-owned enterprises to deliver basic services to low-income areas and provides social grants to a quarter of the population. Currency and inflation volatility, poverty, income disparities, and poor availability of public services continue to characterise the country. However, there has been an improvement in many of these areas. The country, for instance, returned to its target inflation range in 2010, 2011 and 2012, since inflation stood at an estimated 4.1%, 5% and 5.2%, respectively, in these years compared to an estimated 7.2% inflation rate in 2009 (CIA, 2013). The latest Consumer Price Index (CPI) figures echo the previous years' drop in the annual inflation to 4.4% in January 2015 from 5.3% in December 2014. This is the lowest rate of inflation since April 2011 when inflation stood at 4.2% (Statssa, 2015). A dent was made in the South Africa's high unemployment rate from 2011 to 2012 with an estimated rate of 24.9% and 24.4% respectively (CIA, 2013). Unfortunately this positive trend made a turn for the worst in the following two years with the unemployment rate increasing form 24.7% in 2013 to 25.1% in 2014 (Statssa, 2015).

Minerals Industry

The minerals industry contributed 6.3% of South Africa's first quarter year-on year GDP for 2015, but this contribution is more significant if multiplier and induced effects of mining are taken into account (Statssa, 2015).

South Africa has a mature minerals industry developed from gold and diamond discoveries in the late 1800s. The country is the world's largest producer of platinum, chrome and vanadium and ranks highly in the production of diamonds, coal, iron ore and base metals. South Africa hosts a number of large orebodies such as the Bushveld Complex (BC) and the Witwatersrand Basin, as well as rich diamond fields and extensive coalfields.

The greatest challenges associated with the minerals and mining industry in South Africa are the rising costs of labour, electricity, diesel and steel, among other costs. Another challenge, which has gained headline attention in recent years, is that of labour and community unrest caused by low wages, particularly among contract workers.

Other important concerns for the mining industry are the effect of HIV/Aids on the workforce, as well as uncertainty related to resource nationalism, including requirements for beneficiation, limitations on the export of “strategic minerals”, the introduction of a State mining company and calls for the nationalisation of mines.

Coal and Electricity Supply Industry

Southern African demand for thermal coal is strong and this demand stems particularly from South Africa, where there has been heavy investment in coal-fired power stations in the past.

However, South Africa is currently facing power system constraints as a result of a lack of investment in energy infrastructure in the immediate post-apartheid era when extending basic services, creating jobs and providing economic security, as well as an emphasis on sustainability issues were the dominant themes in the government's electricity policy.

The South African State utility, Eskom Holdings Limited (Eskom), has been addressing these constraints, and has returned two previously mothballed power stations, Camden and Grootvlei, to service, with an additional mothballed power station still to be completed. It has also added the capacity of the Ankerlig and Gourikwa open cycle gas turbines and is in the process of adding capacity through its construction of the Medupi and Kusile coal-fired power stations, the Ingule pumped storage Project and Sere wind farm (Eskom, 2013). Eskom's power will also continue to come from its Arnot, Camden, Duvha, Grootvlei, Kendal, Komati, Hendrina, Klipheuvel, Koeberg, Kriel, Lethabo, Majuba, Matla, Matimba and Tutuka power stations, in addition to its pumped storage Projects, in future.

Eskom's power stations have been specifically designed to burn low-grade coals which are abundant in South Africa. Every year Eskom consumes ~62% of domestically-sold coal from which it provides ~90% of the country's electricity.

South Africa has a well-established, low-risk coal mining industry, which has a number of reputable and internationally recognised participants. There are also an increasingly large number of junior mining companies as a result of their investing in greenfields Projects and brownfield Projects, divested of by the larger mining companies wishing to secure Black Economic Empowerment (BEE) credits and to sell mines that do not fit into their coal portfolios.

South Africa's coal reserves rank ninth in the world, with a reported 30.2 billion tonne (Bt) of economically recoverable coal reserves. South Africa was also the seventh-largest producer in energy and volume terms in 2012, with South African coal production tonnages of 258Mt in 2012, and production in energy terms of 146.6 million tonnes of oil equivalent units (Mtoes) (DMR, 2013; BP, 2013). Of this production, 76.0Mt of coal was exported, making coal one of South Africa's most important export minerals (DMR, 2013). The bulk of the exports, particularly when freight charges are low, are destined for Asia (Economist Intelligence Unit, 2010).

There are numerous South African coalfields, with the Witbank and Highveld coalfields being the most economically important as they produce the highest percentage of South Africa's saleable coal. However, given that these have been mined for some time, many are looking to the Limpopo Province for South Africa's future production.

Legislative Framework

The South African Government has an extensive legal framework within which mining, environmental and social aspects are managed.

Inclusive within the framework are international treaties and protocols, and national acts, regulations, standards, and guidelines which address international, national, provincial and local management areas.

South African statutory legislation and requirements relevant to the Project include the following:-

- Mineral and Petroleum Resources Development Act (Act 28 of 2002) (MPRDA);
- Mineral and Petroleum Resources Development Amendment Act 49 of 2008;
- Mineral and Petroleum Resources Development Draft Amendment Bill (2013);
- Broad-Based Socio-Economic Charter (and associated amendments, 2010);
- Promotion of Beneficiation Bill;
- Mineral and Petroleum Resources Royalty Act (Act 28 of 2008) (MPRRA);
- National Environmental Management Act (Act 107 of 1998) (NEMA);
- National Environmental Management: Air Quality Act (Act 39 of 2004) (NEM:AQA);
- National Environmental Management: Waste Act (Act 59 of 2008) (NEM:WA);
- National Environmental Management: Protected Areas Act (Act 57 of 2003) (NEM:PAA);
- Environment Conservation Act (Act 73 of 1989) (ECA) (Section 25 – Noise Regulations);
- National Heritage Resources Act (Act 25 of 1999) (NHRA);
- National Forests Act (Act 30 of 1998) (NFA);
- National Water Act (Act 36 of 1998) (NWA);
- Hazardous Substances Act (Act 15 of 1973) (HAS); and
- Mine Health and Safety Act (Act 29 of 1996) and amendments (MHSA).

Global Coal Market Review

Coal is mined commercially in over 50 countries and used in more than 70 countries worldwide. Coal is readily available from a wide variety of sources in a well-supplied worldwide market and it can be transported to demand centres quickly, safely and easily by ship and rail. A large number of suppliers are active in the international coal market, ensuring competitive behaviour and efficient functioning.

This section discusses the global coal market in general and the thermal coal market in particular.

Resources

Venmyn Deloitte is not aware of any calculation of global coal resources. British Petroleum (BP) provides a list of coal reserves globally (Table 2), although whether these reserves are defined in terms of the Committee for Mineral Reserves International Reporting Standards (CRIRSCO) Codes is uncertain.

Table 2: Global Coal Reserves (end 2014)

	ANTHRACITE AND BITUMINUS (Mt)	SUB-BITUMINOUS AND LIGNITE (Mt)	TOTAL (Mt)	SHARE OF TOTAL	R/P RATIO
US	108 501	128 794	**237 295**	26.6%	262
Canada	3 474	3 108	**6 582**	0.7%	96
Mexico	860	351	**1 211**	0.1%	87
NORTH AMERICA	**112 835**	**132 253**	**245 088**	**27.5%**	**248**
Brazil	-	6 630	**6 630**	0.7%	*
Colombia	6 746	-	**6 746**	0.8%	76
Venezuela	479	-	**479**	0.1%	189
Other S. & Cent. America	57	729	**786**	0.1%	234
SOUTH & CENTRAL AMERICA	**7 282**	**7 359**	**14 641**	**1.6%**	**142**
Bulgaria	2	2 364	**2 366**	0.3%	76
Czech Republic	181	871	**1 052**	0.1%	22
Germany	48	40 500	**40 548**	4.5%	218
Greece	-	3 020	**3 020**	0.3%	61
Hungary	13	1 647	**1 660**	0.2%	174
Kazakhstan	21 500	12 100	**33 600**	3.8%	309
Poland	4 178	1 287	**5 465**	0.6%	40
Romania	10	281	**291**	◆	12
Russian Federation	49 088	107 922	**157 010**	17.6%	441
Spain	200	330	**530**	0.1%	136
Turkey	322	8 380	**8 702**	1.0%	125
Ukraine	15 351	18 522	**33 873**	3.8%	◆
United Kingdom	228	-	**228**	◆	20
Uzbekistan	47	1 853	**1 900**	0.2%	432
Other Europe & Eurasia	1 389	18 904	**20 293**	2.3%	337
EUROPE & EURASIA	**92 557**	**217 981**	**310 538**	**34.8%**	**268**
South Africa	30 156	-	**30 156**	3.4%	116
Zimbabwe	502	-	**502**	0.1%	120
Other Africa	942	214	**1 156**	0.1%	379
Middle East	1 122	-	**1 122**	0.1%	*
MIDDLE EAST AND AFRICA	**32 722**	**214**	**32 936**	**3.7%**	**122**
Australia	37 100	39 300	**76 400**	8.6%	155
China	62 200	52 300	**114 500**	12.8%	30
India	56 100	4 500	**60 600**	6.8%	94
Indonesia	-	28 017	**28 017**	3.1%	61
Japan	337	10	**347**	◆	265
New Zealand	33	538	**571**	0.1%	143
North Korea	300	300	**600**	0.1%	19
Pakistan	-	2 070	**2 070**	0.2%	*
South Korea	-	126	**126**	◆	72
Thailand	-	1 239	**1 239**	0.1%	6
Vietnam	150	-	**150**	◆	4
Other Asia Pacific	1 583	2 125	**3 708**	0.4%	97
ASIA PACIFIC	**157 803**	**130 525**	**288 328**	**32.3%**	**51**
TOTAL	**403 199**	**488 332**	**891 531**		

** More than 500 years. ◆ Less than 0.05%.*

Notes: ***Proved reserves of coal*** *- Generally taken to be those quantities that geological and engineering information indicates with reasonable certainty can be recovered in the future from known deposits under existing economic and operating conditions.*

Reserves-to-production (R/P) ratio *- If the reserves remaining at the end of the year are divided by the production in that year, the result is the length of time that those remaining reserves would last if production were to continue at that rate.*

Reserves

Total global coal reserves are estimated at 891Bt, according to BP (BP, 2015). Historically, estimates of world recoverable coal reserves have reduced from 1,174Bt in 1990, to 1,083Bt in 2000 and stood at 891Bt in 2014 (Table 2).

Although coal deposits are widely distributed, almost three quarters of the world's recoverable coal reserves were located in five countries at the end of 2014; the United States (26.6%), Russia (17.6%), China (12.8%), Australia (8.6%) and India (6.8%). Regionally, Europe and Eurasia, with 34.8% of recoverable coal reserves, accounted for the largest quantity of proved coal. The Middle East, with the world's largest oil deposits, contained the least coal reserves in the world (0.1%). Africa accounted for 3.6% of recoverable coal reserves in 2014 (Table 2). South Africa's coal reserves were ~30Bt in 2014.

Current Supply

The Asia Pacific region accounted for 2,722.5Mtoes of coal produced, or ~69% of coal produced, in 2014 (Figure 5). China, Australia, Indonesia and India were the dominant producers, but China was the most significant producer, producing ~68% of Asia Pacific coal in energy terms in 2014. After the Asia Pacific region, North America produces the next highest amount of coal by energy value, although it has traditionally produced less coal in volume terms than Europe and Eurasia. Africa, South and Central America and the Middle East are the next largest coal producers by volume and energy values. This pattern is observed in consolidated global figures for 2014 (Figure 5 and Figure 6).

Current Demand

There was a global increase in demand for coal in 2014, with consumption, in energy terms, increasing by 0.9% in general. The increase is a notably decelerated in comparison to the year 2013 (2% increase) and is well below the 10 year average increase of 2.1% (BP, 2015). Among the most significant users of coal was China, which increased its year-on-year consumption (in energy terms) by a mere 0.1%; the US, which experienced a 0.3% slowdown in consumption, and India, which increased its consumption by 11.1% in 2014 (BP, 2015). Africa experienced the highest increase in demand for coal by the end of 2014 as a result of Egypt's staggering 295.8% increase in coal demand (BP, 2015). Asia Pacific's increase ranked second in the global coal demand, this is in line with this increased demand from China and India as well as other emerging Asian nations. Growth in coal demand from other regions, and particularly from Europe and Eurasia and the Middle East is negative, this could be attributed to environmental concerns, poor economic growth and a switch to cheaper energy alternatives.

The Asia Pacific region accounted for the bulk of coal demand by energy value in 2014, with 71.5%, or 2,776.6Mtoe, of global consumption stemming from this region in 2014 (Figure 6). North America, at 12.6%, or 488.9Mtoe, of global demand continues to have greater coal consumption (in energy terms) than, Europe and Eurasia at 12.3% of global demand, or 476.5Mtoe, in 2014 (Figure 6).

Figure 5: Global Coal Production (2003-2014)

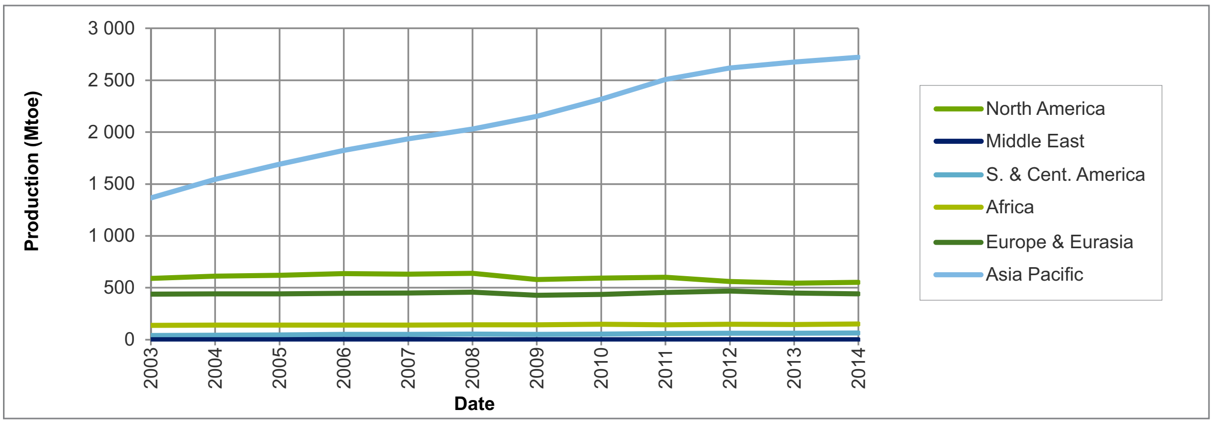
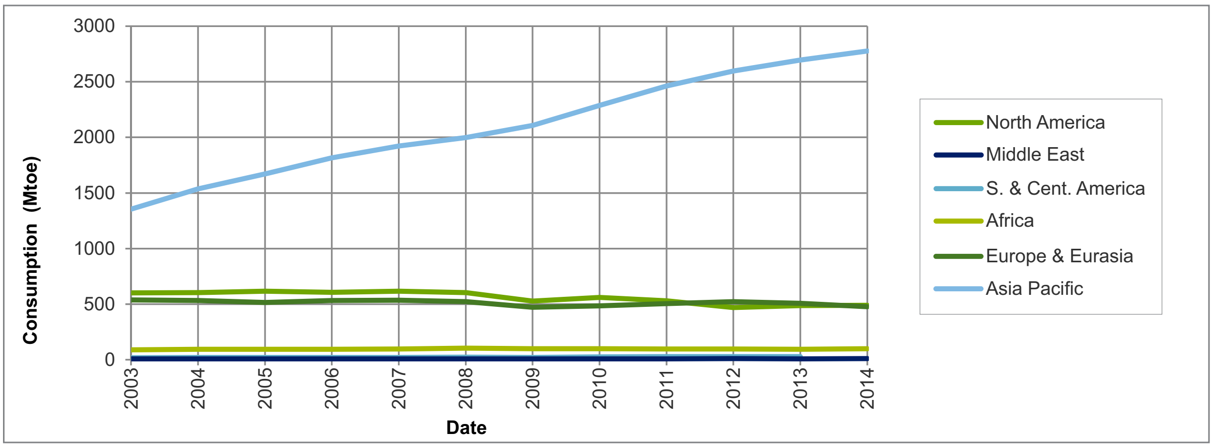


Figure 6: Coal Consumption (2003-2014)



Future Demand

Global coal consumption is forecasted to increase by 2.1% per year until 2019, this translates to approximately 772 million tonnes coal equivalent (Mtce) per year (IEA, 2014). Most of the incremental growth is expected to come from China even though it is anticipated that the country will take strong action to diversify primary energy sources and increase energy efficiency. India is forecasted to attribute 177Mtce per year to the global demand, solidifying its role in Asia's status as the coal continent (IEA, 2014).

A decrease is forecasted in both US and European coal consumption. US coal demand is anticipated to decrease by 1.7% over the outlook period to the year 2019, reaching its lowest level since 1983 with a 561Mtce coal demand (IEA, 2014). The increase in shale gas production and environmental regulation on emissions will contribute to the drop in coal demand. Increasing renewable generation and energy efficiency will attribute to the deterioration in European thermal coal and lignite demand. A decrease of up to 16Mtce can be expected over the outlook period (IEA, 2014).

Future Supply

A significant growth over the next two decades in thermal seaborne supply is forecasted by Wood Machenzie which will be driven by demand from China and India. Chinese demand is still relevant, even with its significant move to alternative energy but the seaborne coal markets are now switching their focus to India, which will be the dominant demand market for coal going forward. The growth in seaborne supply is expected to come from existing and emerging sources such as Australia's Surat and Galilee basins, Indonesia's Kalimantan and Sumatra basins as well as basins in Mozambique, Mongolia, Russia's Far East and the west coast of the US. The growth in seaborne thermal coal supply is illustrated in Figure 7.

Pricing Trends

From the Directorate Mineral Economics (2015), it is known that bituminous coal sold in South Africa at between ZAR287/t and ZAR295/t between March 2014 and February 2015, and was exported from South Africa at export prices ranging from ZAR675/t and R610/t. From the Directorate Mineral Economics (2015), it is known that anthracite coal sold in South Africa at between ZAR955/t and ZAR1057/t between March 2014 and February 2015, and was exported from South Africa at export prices ranging from ZAR828/t and ZAR762/t.

INet Bridge reports on the 6,000kCal price and Figure 8 illustrates the historic price of this grade of coal. The coal price has fluctuated significantly over the last five years. However, coal has been trading over a relatively narrow range in 2014 and 2015.

Figure 7: Projected Increase in Seaborne Thermal Coal Supply to India and Southeastern Asia (2015-2019)

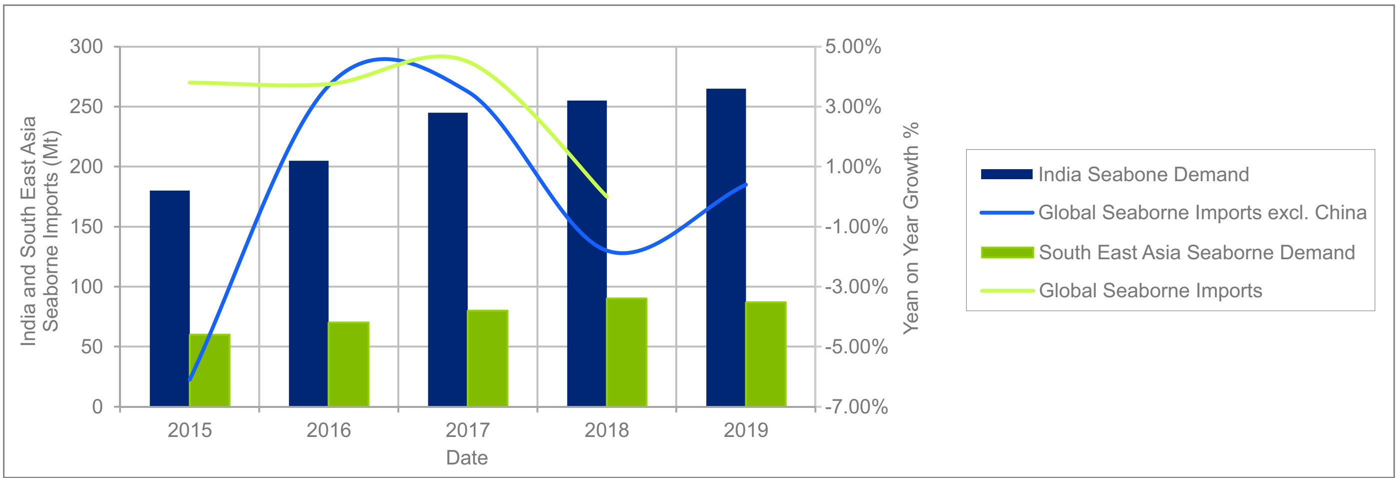
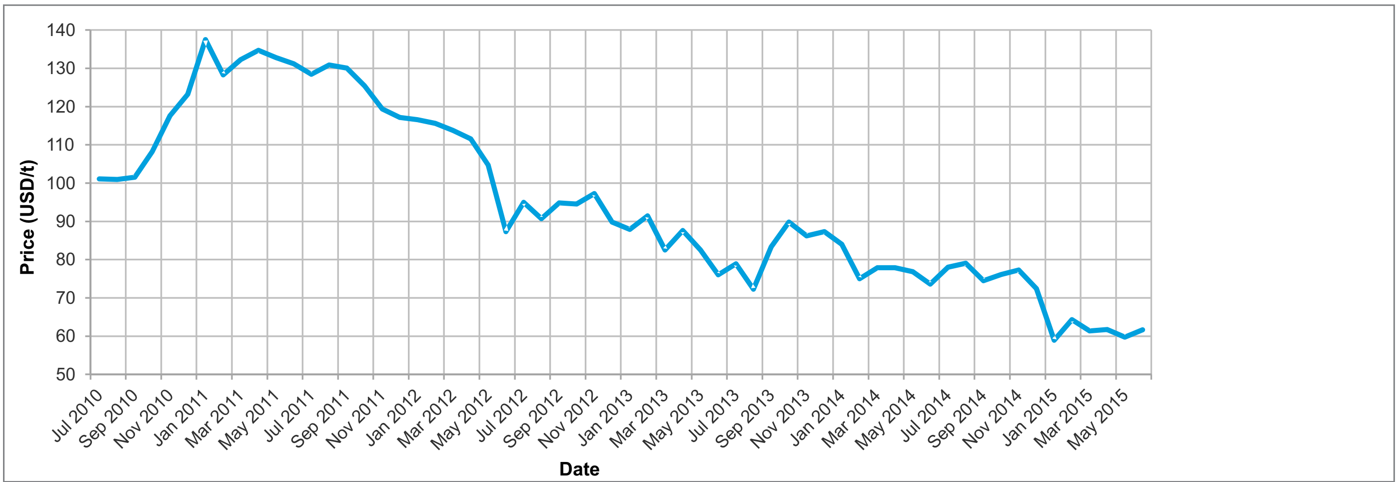


Figure 8: Coal (6,000kCal) Price History (2010-2015)



History and Ownership

The earliest exploration in the Project area was conducted by Anglo-American in 1949. Further exploration was undertaken by the same company in 1984. In the 1960s, a number of drillholes were drilled by the Fuel Research Institute and Reef Metal Refineries. Three drillholes were completed by Transvaal Consolidated Land and Exploration Company in the late 1970s. Southern Sphere Mining and Development carried out the bulk of historical exploration on the farm between 1977 and 1980. No historical resource statements or studies exist in the public domain of which Delta Mining is aware.

Physical and chemical data from a total of fifty one historical drillholes, involving a total of 2,903m, were acquired from the Council for Geoscience (CGS). Twenty two of these drillholes were located on Portions 1 and 2 (currently held by Exxaro Coal Ltd), which is not held by Ashante, however the information from these adjacent properties has been used for structural and quality modelling purposes.

DMC Energy (Pty) Ltd (DMC), a wholly owned subsidiary of Delta Mining, completed three phases of exploration on the Nsele Project prior to Delta Mining's involvement. Drilling for phase 1 was undertaken from April to June 2008, Phase 2 from July to November 2008 and Phase 3 from December 2008 to August 2009. A total of 228 drillholes have been completed, in all three phases.

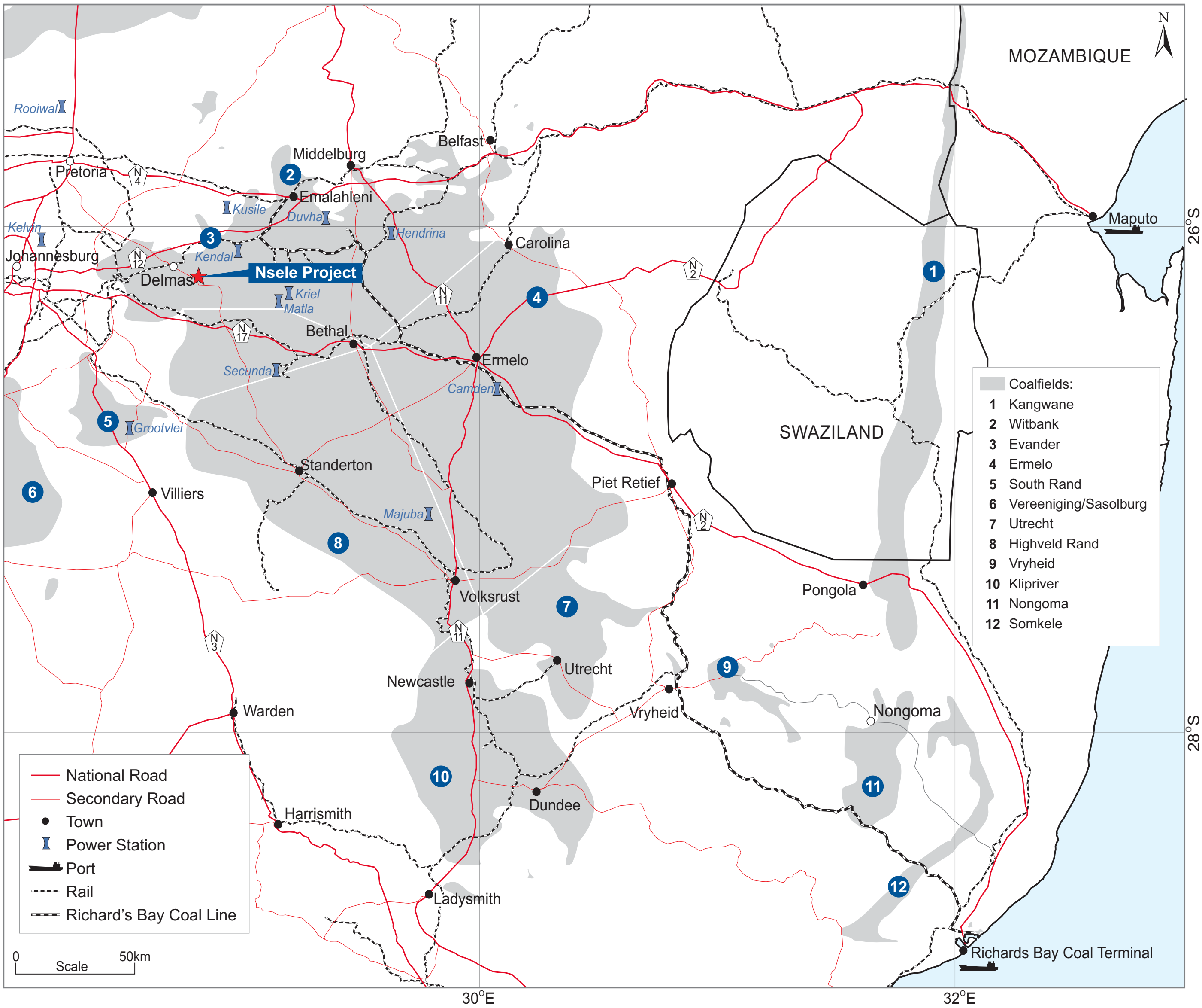
Geological Setting and Mineralisation

Regional Geological Setting

All of the known coal deposits in South Africa are hosted in sedimentary rocks of the Karoo Basin (Figure 9), a large retro-foreland basin that developed on the Kaapvaal Craton and filled between the Late Carboniferous and Middle Jurassic periods (Catuneanu et al., 1998).

The Karoo Supergroup is lithostratigraphically subdivided into the Dwyka, Ecca, Beaufort and Stormberg Groups, succeeded by the Drakensburg Formation (SACS, 1980).

Figure 1: Regional Locality of the Rietkuil Project Showing the Location of the Nsele Project



The coals range in age from Early Permian (Ecca Group) through to Late Triassic (Molteno Formation, Stormberg Group) and are predominantly bituminous to anthracite in rank, which is a classification in terms of metamorphism under the influence of temperature and pressure.

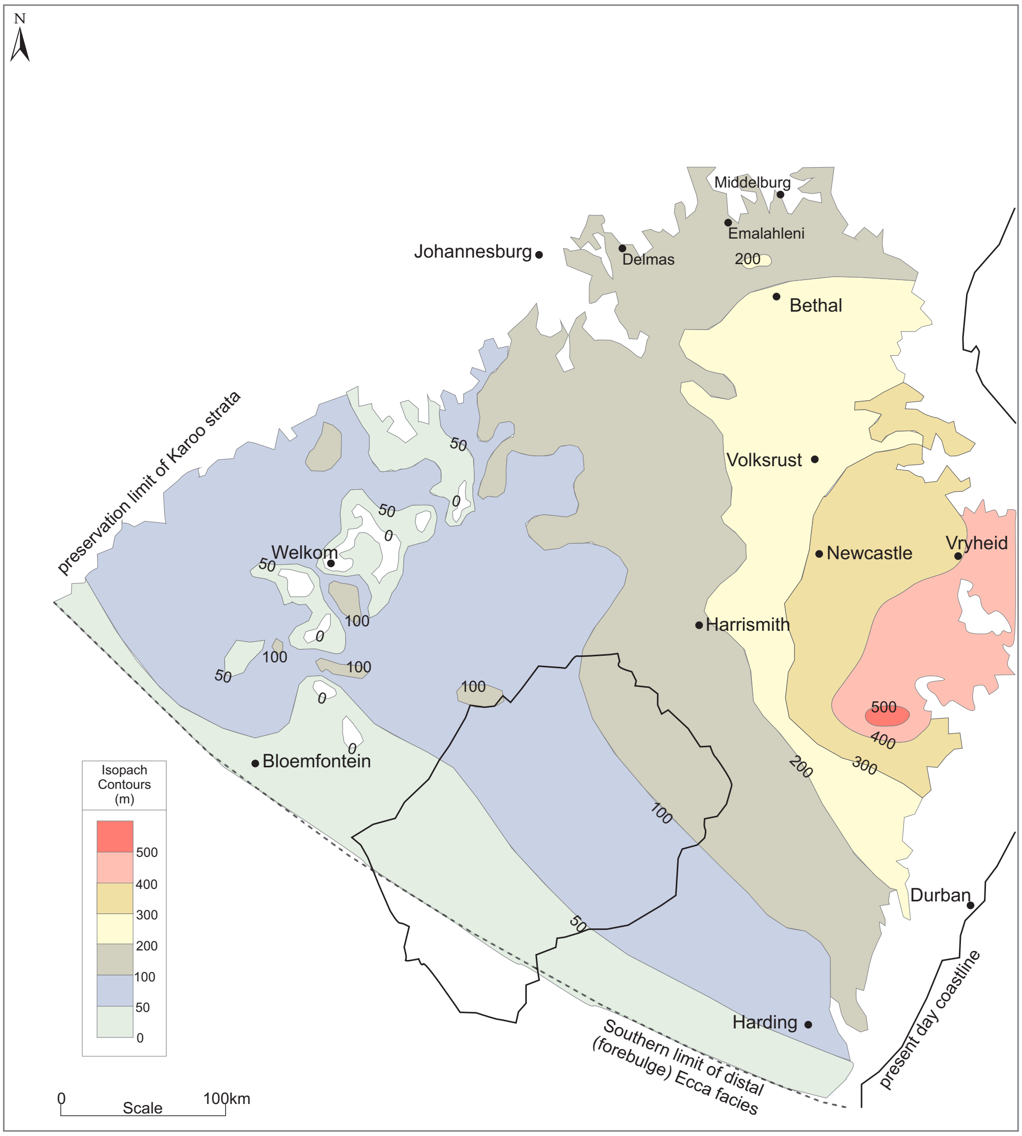
Within the Karoo Basin, the coalfields have been defined based on variations in sedimentation, origin, formation, distribution and quality of the coals. These variations are in turn related to specific conditions of deposition and the local tectonic history of each area (Catuneanu et al., 2002).

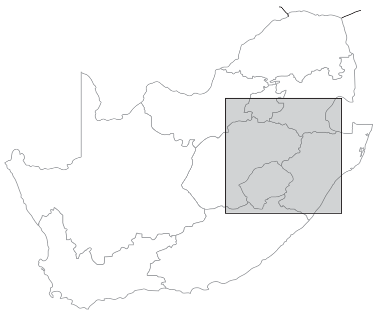
The coal deposits of the Witbank Coalfield are restricted to rocks of the Vryheid Formation, which ranges in thickness from 70m to over 500m, being thickest in the northeast and east of the preserved outcrop area, to the south-southwest of the town of Vryheid, where the basin was the deepest (Figure 10).

The Witbank Coalfield

The Witbank Coalfield is situated in the northern part of the Main Karoo Basin, extending from roughly 25°30′S to 26°30′S by 28°30′E to 30°00′E, and covering an area of over 568,000ha. It extends approximately 90km in a west– east direction, from the towns of Springs in the west to Belfast in the east, and 50 km in a north–south direction, from the town of Middelburg in the north to Rietspruit in the south. The northern boundary of the coalfield is formed by pre-Karoo basement rocks, whilst the southern boundary in the central portion of the basin is widely considered to be the sub-outcrop against a basement palaeo-high known as the Smithfield Ridge, a broadly east–west trending, crescent shaped ridge of pre-Karoo felsites, granites and diabase of the Bushveld Complex (BC).

Figure 10: Isopach Map for the Vryheid Formation





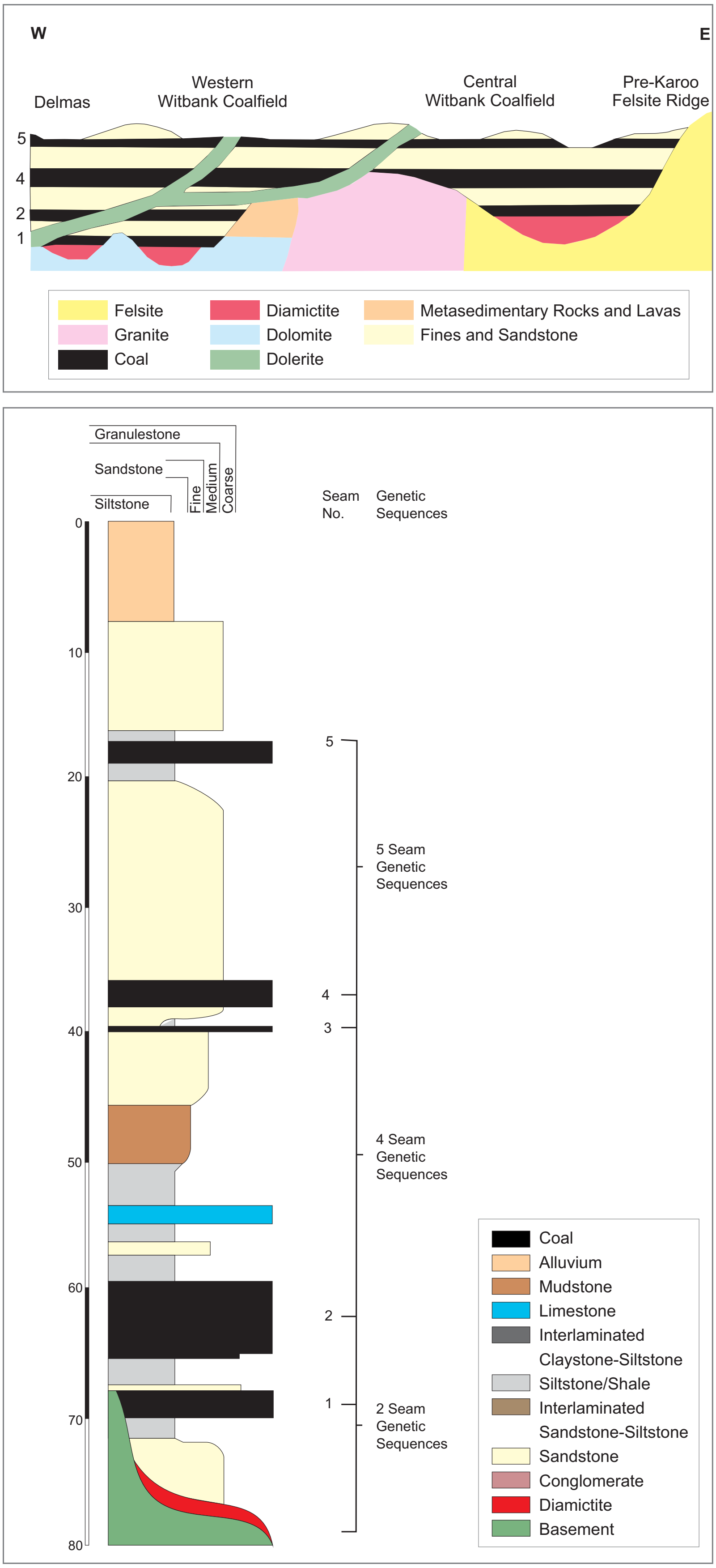
General Geology

The basement of the Witbank Coalfield changes from granites, gabbros and norites of the BC, to Witwatersrand Supergroup metaquartzites, and Transvaal Supergroup dolomites, metaquartzites and metavolcanics. The changing nature of the basement plays a major role in the nature of the palaeo-topography created. For example, in the far west of the Witbank Coalfield (Figure 6) where dolomites of the Transvaal Supergroup form the basement, abnormally thick coals filling karst palaeo-topography are known.

The basal Pietermaritzburg Formation of the Ecca Group is absent in the Witbank Coalfield. The overlying Dwyka Group lithologies are well known from drillhole data. The succession consists of massive diamictite, with lesser matrix supported conglomerates and coarse-grained sandstones, with occasional siltstone and sandstone interbeds, pebbly mudstones and varved siltstone. Outcrop sections of the Vryheid Formation are equally rare, but the vast amount of drillhole data provides a clear picture of the sedimentary succession.

The stratigraphic column of the western Witbank Coalfield, the Delmas region is split into three sequences which contain five coal seams. The economic units are from the base up the No.2 Seam, No.4 Seam and No.5 Seam sequences (Figure11). Two additional seams occur in the area. The No.1 Seam which is sporadically developed in palaeo-lows, and the No.3 Seam which occurs intermittently across the property.

Figure 11: West to East Section across the Witbank Coalfield and Generalised Stratigaphy

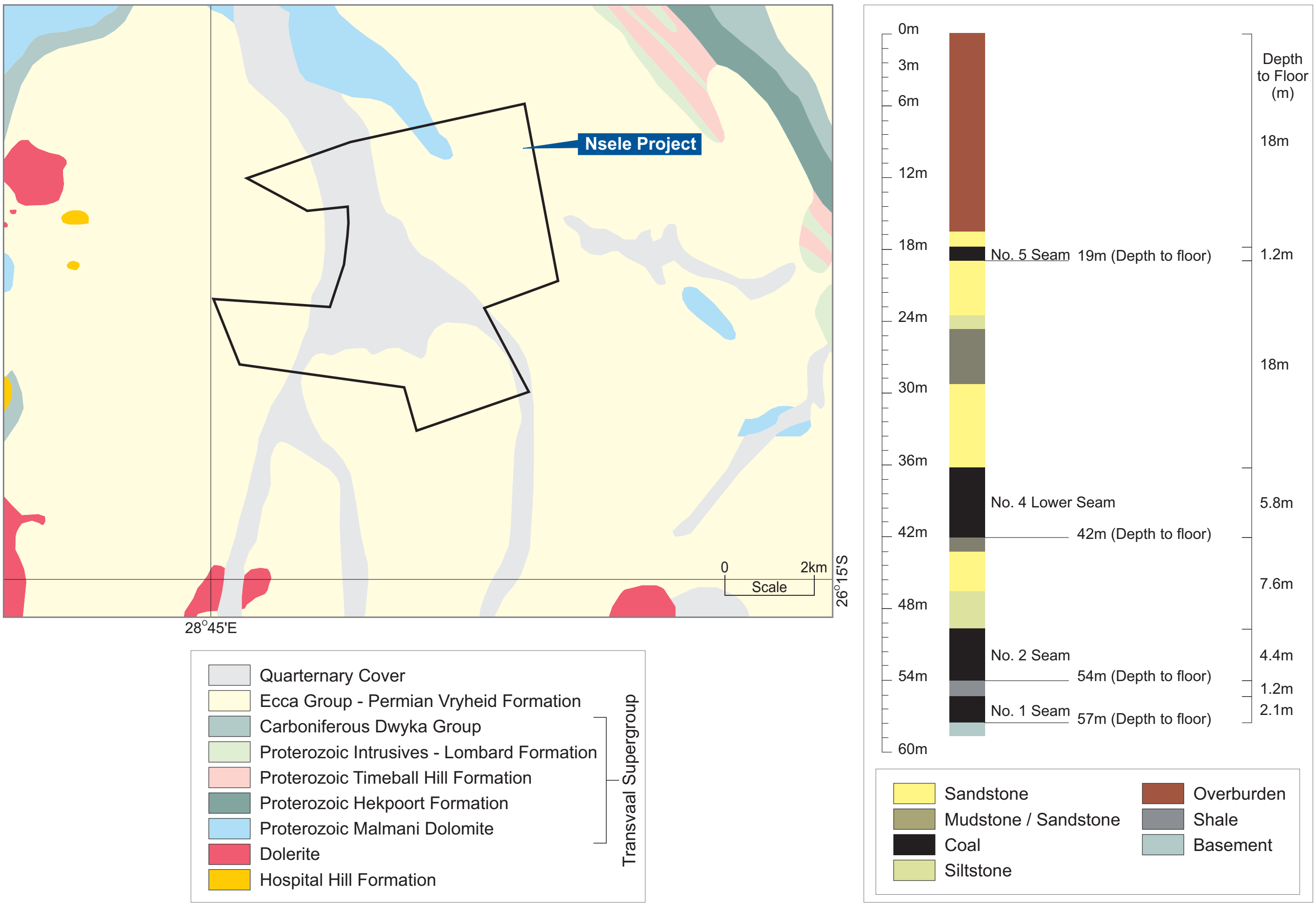


Local Geological Setting

The surface geology over the Nsele Project area is dominated by outcrops and sub-crops of sedimentary rocks of the Ecca Group (Vryheid Formation), with Transvaal Supergroup (Malmani Subgroup) outcrops also present at the surface in the far north of the Project area (Figure 12). The basement rocks, comprising mostly cherty Malmani dolomites of the Transvaal Supergroup, usually immediately overlain by a draped veneer of Dwyka Group sediments. The palaeo-surface represented by the top of the Dwyka Group usually closely reflects the underlying basement palaeo-karst topography.

Dolerite intrusions were intersected in a number of drillholes. Most of the dolerite intersections intersected were interpreted to represent a sill which transgressed from a stratigraphic level above the No.4 or No.5 Seams to a position below the No.2 seam and may have intruded the Dwyka Group sediments or the basement.

Figure 12: Local Geology and Simplified Stratigraphic Column of the Nsele Project



Exploration and Drilling Data

Geophysics

Geophysical surveying of the Nsele Project included both aeromagnetic and ground magnetic surveys. The aeromagnetic data was purchased in 2008 from the Council for Geosciences (CGS). The aeromagnetic data was at the time interpreted by DMC, in-house geophysicist. A comprehensive report on the geophysical work carried out at the Nsele Project, entitled The Geophysics Survey, Rietkuil, Mpumalanga Province, 1 June 2009, details the study.

Surveying

A topographical survey was carried out and digital orthophotos and a digital terrain model (DTM), accurate to 30cm, was created from 1:10,000 monochrome aerial photography.

The drillhole collars of the drillholes drilled by DMC were surveyed by Survey and Consulting Services (SCS) with co-ordinates based on the Hartbeesthoek 94 datum, WGS 84 ellipsoid with TM Lo29 Projection. The drillhole collar locations for historical drillholes drilled before DMC cannot be verified with any certainty.

Downhole Geophysics/Wireline Logging

Downhole geophysical logging was carried out on 19 selected drillholes by Weatherford Slimline Services and the depths reconciled with the lithological logs.

Diamond Drilling

There are no details available regarding the drilling contractors or the equipment employed during the historical exploration campaigns. A total of 51 historical drillholes have been drilled across the Rietkuil Farm, of which 22 were on the Nsele Project. DMC carried out three exploration drilling campaigns during the period of April 2008 and August 2009, totalling 228 drillholes. The details of the drilling carried out are detailed in Table 3.

Physical and chemical data from the 51 historical drillholes, involving a total of 2,903m were acquired from the CGS. Twenty nine of these drill holes were located on Portions 1 and 2 (currently held by Exxaro Coal Ltd), which is not held by DMC, however the information from these adjacent properties has been used for structural and quality modelling purposes.

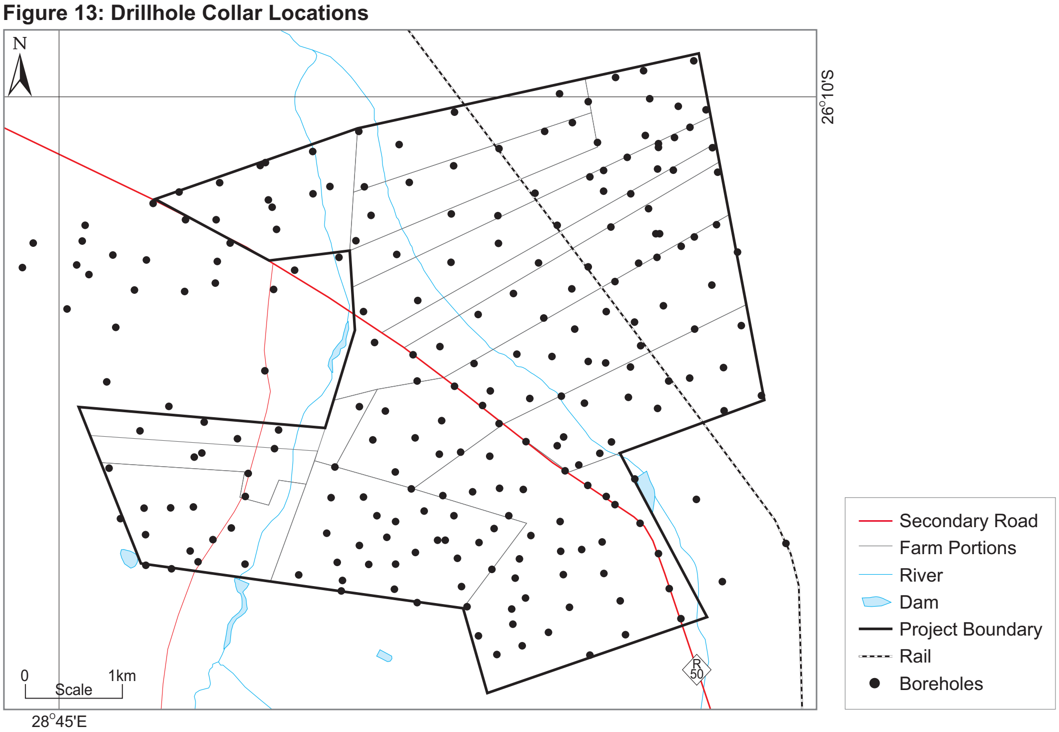
All the drillholes drilled by DMC were drilled vertically and only drillholes with core recoveries exceeding 95% were used in the resource database, satisfying the minimum requirement in accordance with the South African Code for Reporting of Mineral Resources and Mineral Reserves (SAMREC Code) and the Systematic Evaluation of Coal Resources and Coal Reserves, (SANS) 10320:2004 Guidelines. A total of three drillholes were excluded from the resource database.

The drillhole collar locations of the drillholes used in the Nsele Project geological model are illustrated in Figure 13.

Table 3: Drilling Programmes Conducted at the Nsele Project to 31 August 2009

PHASES OF DRILLING	COMPANY	DRILLING TYPE	HOLES DRILLED
1949 and 1984	Anglo American	Core	51
1960	Fuel Research Institute/Reef Metal Refineries	Core	
late 1970's	Transvaal Consolidated Land and Exploration Company	Core	
1977 and 1980	Southern Sphere Mining and Development	Core	
2008-2009	DMC	Core	228

Figure 13: Drillhole Collar Locations



Logging Methods

During the DMC drilling campaigns all drillhole core was cleaned, suitably packed into labelled metal core boxes and properly marked up with plastic depth blocks. The plastic depth blocks recorded the drillhole number, depth, advance and recovery for each run and were inserted at the end of each run by the driller. The geological logging was carried out using standard forms and codes. The core was photographed with the suitable depth identifiers included in the picture. The geological logs were captured into a database in a coded format using Geolog® software.

Sampling Method and Approach

Drillhole Core Sampling

The sampling of the coal seams from the drillhole core was carried out once the detailed logging was complete. The coal seam sample interval was selected on the basis of the coal lithology. Whole core sampling was undertaken to eliminate bias from the results. The minimum sample length was 30cm in order to ensure there was sufficient material for analysis. To minimise the loss of fines and contamination during sampling, sampling was carried out on plastic sheets. Samples were bagged and identified with wet strength tags both inside and outside of the bagged sample.

The sampling of the drillhole core during Phase 1 was undertaken at the DMC offices while the sampling of Phases 2 and 3 was conducted on site with samples immediately transported to DMC head office or directly to the laboratory.

No details are available regarding the sampling techniques used for the historical drillholes.

Sample Preparation, Analysis and Security

Sample Preparation

In the case of samples from historical drillholes, no details are available regarding the sample preparation procedures or the identity of the laboratories involved.

Approximately 1,400 samples from the DMC exploration programme were submitted to ALS Witlab (Pty) Ltd (ALS Witlab), located in Witbank, Mpumalanga Province. ALS Witlab, an independent company specialising in coal sampling and analysis, has applied for accreditation to ISO/IEC 17205/2005:1999(E) and has submitted its quality manual to the South African National Accreditation Service (SANAS). ALS Witlab is utilised by many major South African and international coal mining companies and has been subjected to laboratory audits by ESKOM and international clients. The laboratory regularly participates in recognised 'round robin' quality control procedures, both locally and internationally. The following sample preparation procedures were employed by ALS Witlab:-

- check delivered samples against supplied inventory;
- determine the mass of each sample;
- determine the relative density (RD) of each sample (The minus 0.5mm material was first screened out. The remainder of the sample was weighed and the relative density determined through immersion in water and measurement of displacement using recognised standard laboratory techniques);
- crush each sample to minus 25mm;
- split out a representative sample by means of a rotary divider, for raw analysis;
- report results of raw analyses and await further instructions;
- receive instructions for composite samples;
- prepare composite samples;
- screen out the minus 0.5mm fraction; and
- wash the -25+0.5mm fraction at F1.35, F1.40, F1.50, F1.60, F1.70, F1.80, and S1.80 and record all masses and yields (washability float and sink testing was conducted according to ISO 7936 standards.

All results are entered into the laboratory management system; VERILIMS. VERILIMS is used to ensure the traceability of all results and rapid communication of results to clients electronically.

Coal Quality Analysis

No details regarding the laboratories and analytical methods used for the analysis of historical drillhole samples is available.

For samples derived from the DMC exploration campaigns the following basic analyses were performed on raw samples, minus 0.5mm material and all -25+25mm float and sink fractions:-

- proximate analysis;
- calorific value; and
- sulphur content.

The analytical determinations were conducted according to the following international and national standards:-

- inherent moisture – ISO 331;
- ash – ISO 1171;
- volatile matter – ISO 562;
- fixed carbon – by difference;
- phosphorus – ISO 622;
- washability float and sink test – ISO 7936;
- calorific value – ISO 1928; and
- total sulphur – ASTM D4239.

Selected samples underwent specialised testwork, which included the following:-

- hardgrove gindability index – ASTM D 3402;
- abrasive index
- roga index – SANS 335;
- swelling index – ISO 501;
- ash component analyses; and
- ash fusion temperatures (reduction) – ISO 501.

Bulk Density Determination

Bulk density for the DMC drilling campaigns was determined by screening off the -0.5mm material from the sample. The sample was then weighed and the relative density is determined through immersion of the sample in water and measuring the displacement using recognised standard laboratory techniques. The average determined densities for the No.2, No.4 and No.5 Seam are 1.83t/m^3, 1.74t/m^3 and 1.69t/m^3 respectively.

The densities for the overburden and interburden were determined during the geotechnical investigation. The density of the waste is on average 2.41 t/m^3.

Security

All samples were managed by and secured by the Project geologist at the time of the DMC drilling campaigns. The samples remained in the custody of DMC prior to the formal handover to ALS Witlab. At the formal handover, samples and sample numbers were recorded and signed off as being received by the laboratory. The receipt from the laboratory was filed for record keeping purposes. No details are available pertaining to historical sample security.

Data Management

Data Acquisition and Validation

All lithological, structural, sedimentological and analytical results from the DMC drilling campaigns were validated in MS Office Excel® before being captured into the geological database, Geolog®. Once the data was in Geolog® a printed graphic log would be checked against field log to ensure accuracy.

Database Management

The validated drilling data from the DMC drilling campaigns was captured into the Geolog® database by the Project geologist. Once data was entered into the database, only the administrator was able to make changes.

Orebody Modelling and Results

Introduction

The coal deposit for the Nsele Project was modelled and estimated by DMC using Datamine™ Studio 3 software. The general modelling approach involved, firstly modelling the controlling structures, such as the dolerite sills and dykes as well as the palaeo-topography and then employing a combination of grid modelling, manual editing and wire-framing to model the seam structures. Burnt coal or anthracite was classified under SANS 10320:2004 for the Nsele Project. Venmyn Deloitte undertook a high level review of the geological model and resources and concludes that the geological model is satisfactory to declare a Coal Resource.

Structural Modelling

The palaeo-topography, comprising either basement or top of Dwyka Group sediments was modelled. Dolerite sills and dyke features were also modelled and included into the geological model. The seam models were constructed for the No. 2, No.4 and No.5 Seams. The upper and lower surfaces of each seam were modelled by interpolating the seams based on the paleo topography and structural controls.

Coal Resources Statement

The block models produced were used as the controlling mechanism for quality modelling. Inverse distance cubed was employed to interpolate the coal qualities. A search radius of 500m was used in all instances. A hard boundary was created around occurrences of coal considered uneconomic and the areas were removed from the block model. Additional model fields were created to define such items as resource category and stripping ratio. The historical completed exploration programmes have generated sufficient drillhole information to confidently support SAMREC Code definition of Measured and Indicated Coal Resources.

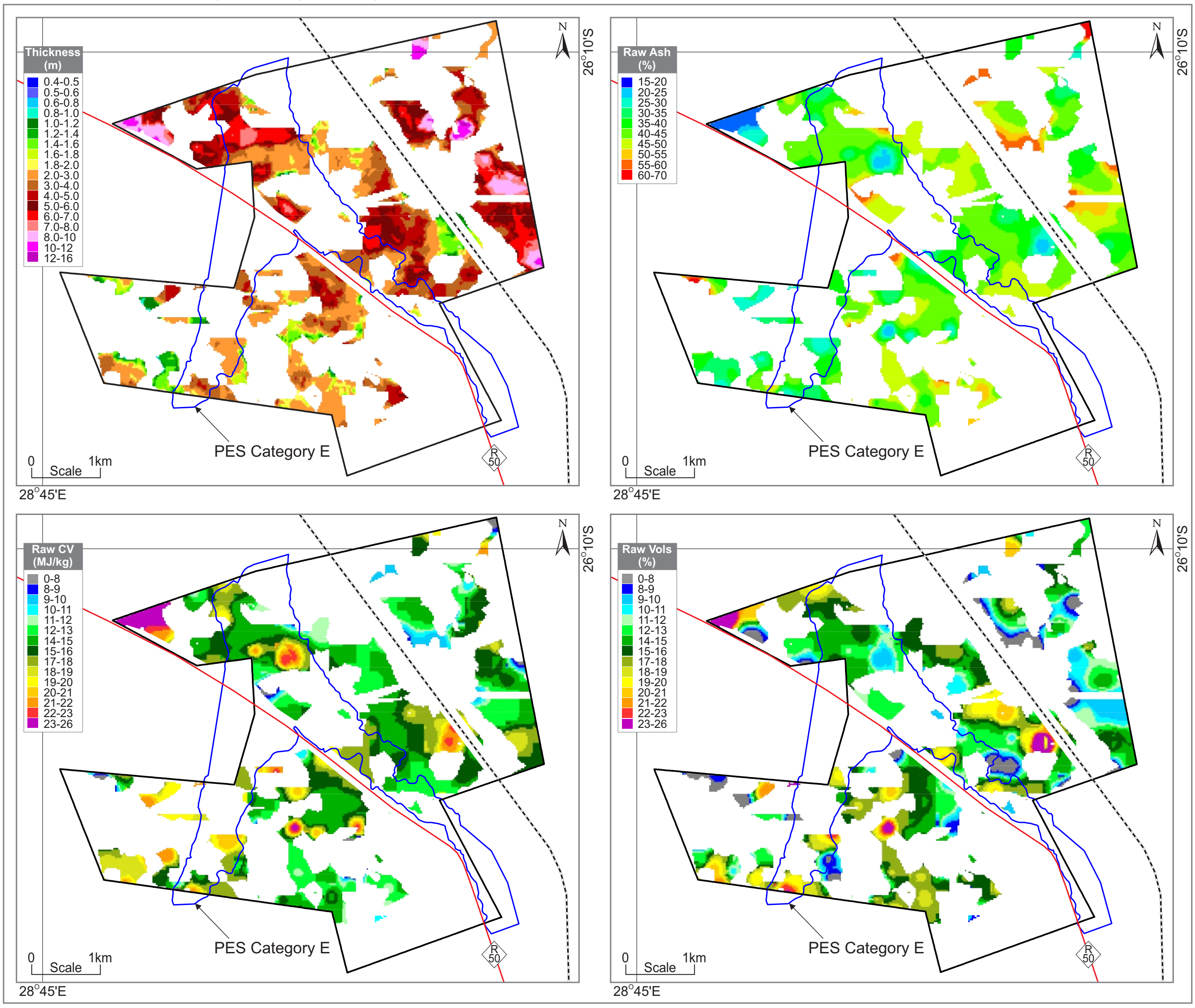
The Nsele Project was divided into a number of resource blocks based on physical constraints, such as prospecting rights, farm portion boundaries, roads, the rail line and topographic features. The resource and average quality of each potentially mineable seam in each discrete block has been estimated. The seam qualities are illustrated in Figure 14 A and B. Seam volumes, and volume-weighted relative densities and qualities were determined from the block models in Datamine™. Average coal qualities in each category were weighted by tonnage.

The resource classification process was carried out in accordance with the South African Guide to the Systematic Evaluation of Coal Resources and Coal Reserves (SANS) 10320:2004 coal resource classification criteria. Whilst there is sufficient data to support a SAMREC compliant resource, Venmyn Deloitte has not however carried out a sufficiently detailed due diligence of the coal resources for the Nsele Project to permit the declaration of a SAMREC compliant coal resource signed off by Venmyn Deloitte. Venmyn Deloitte has relied on the fact that the Coal Resource for the Nsele Project have been estimated and declared as SAMREC compliant by Mr Roman Szczecina, who was an employee of DMC and Mr Arthur Richard Rice who was a private consultant to DMC. Both Mr Szczecina and Mr Rice fulfil the requirements of Competent Persons under the SAMREC Code. During the course of 2011 SRK Consulting (South Africa) (Pty) Ltd (SRK) conducted a review of the DMC Feasibility Study for the Nsele Project. SRK was of the opinion that the Coal Resources are reported in accordance with the requirements of the SAMREC Code. The Coal Resources are shown in Table 4.

The coal seam mineral resource categories for the Nsele Project are illustrated by seam in Figure 15.

Figure 14(a): Coal Seam Quality Plots

2 Seam - Seam Thickness, Raw Ash, Raw CV, Raw Vols



4 Seam - Seam Thickness, Raw Ash

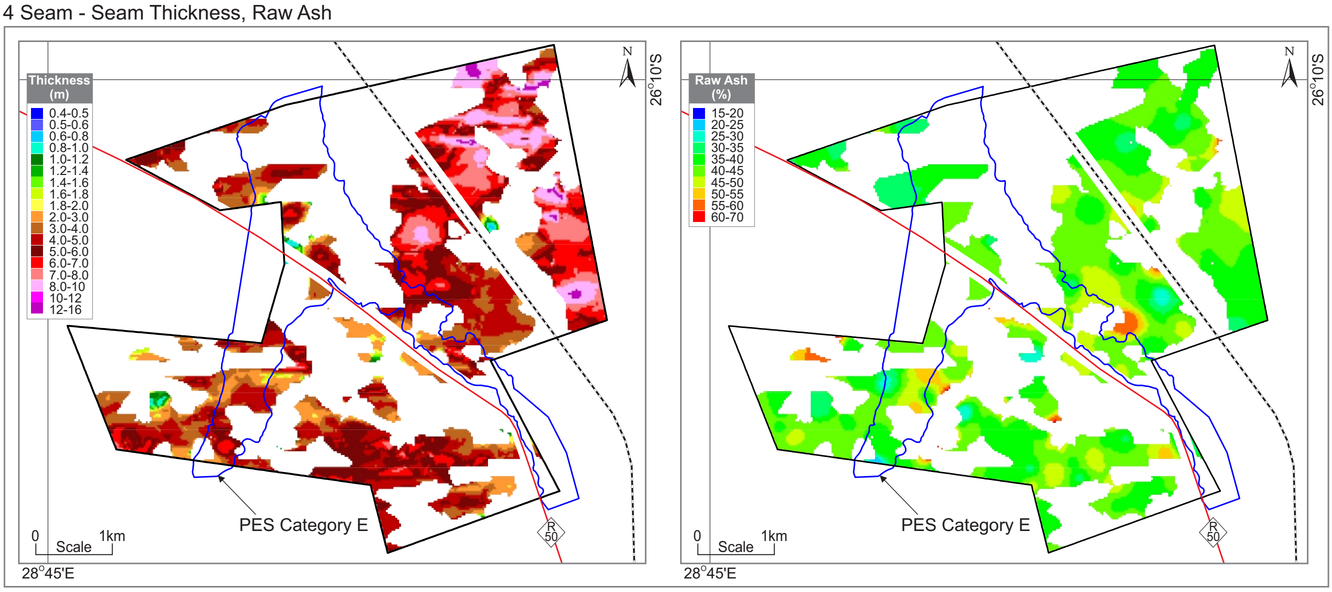
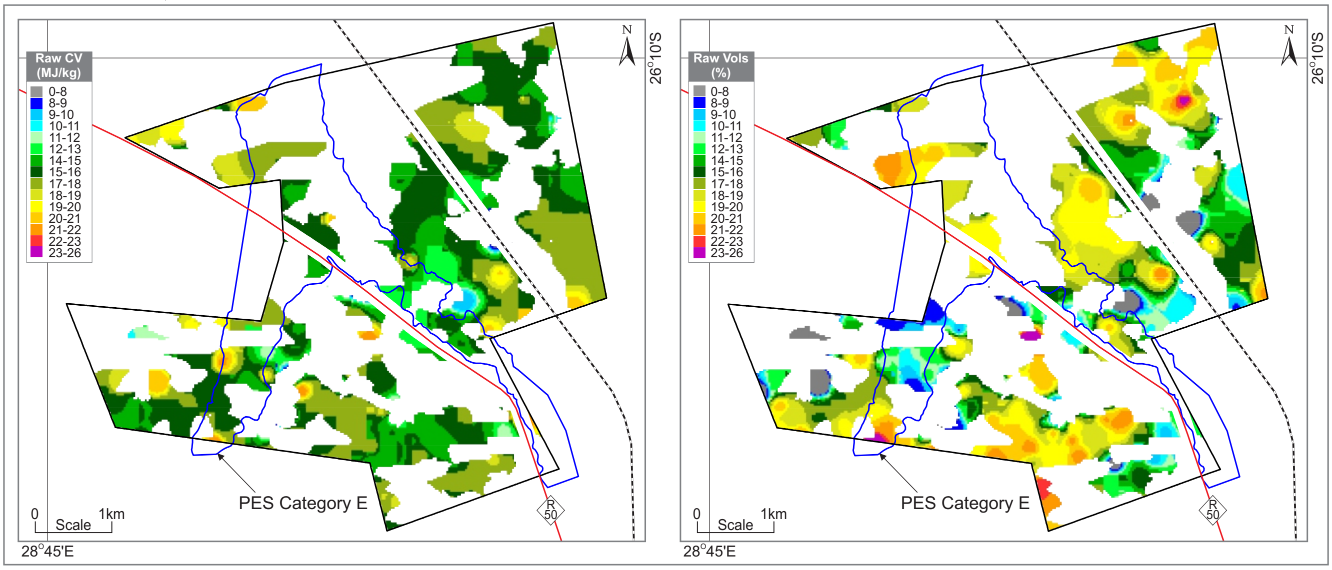


Figure 14(b): Coal Seam Quality Plots

4 Seam - Raw CV, Raw Vols



5 Seam - Seam Thickness, Raw Ash, Raw CV, Raw Vols

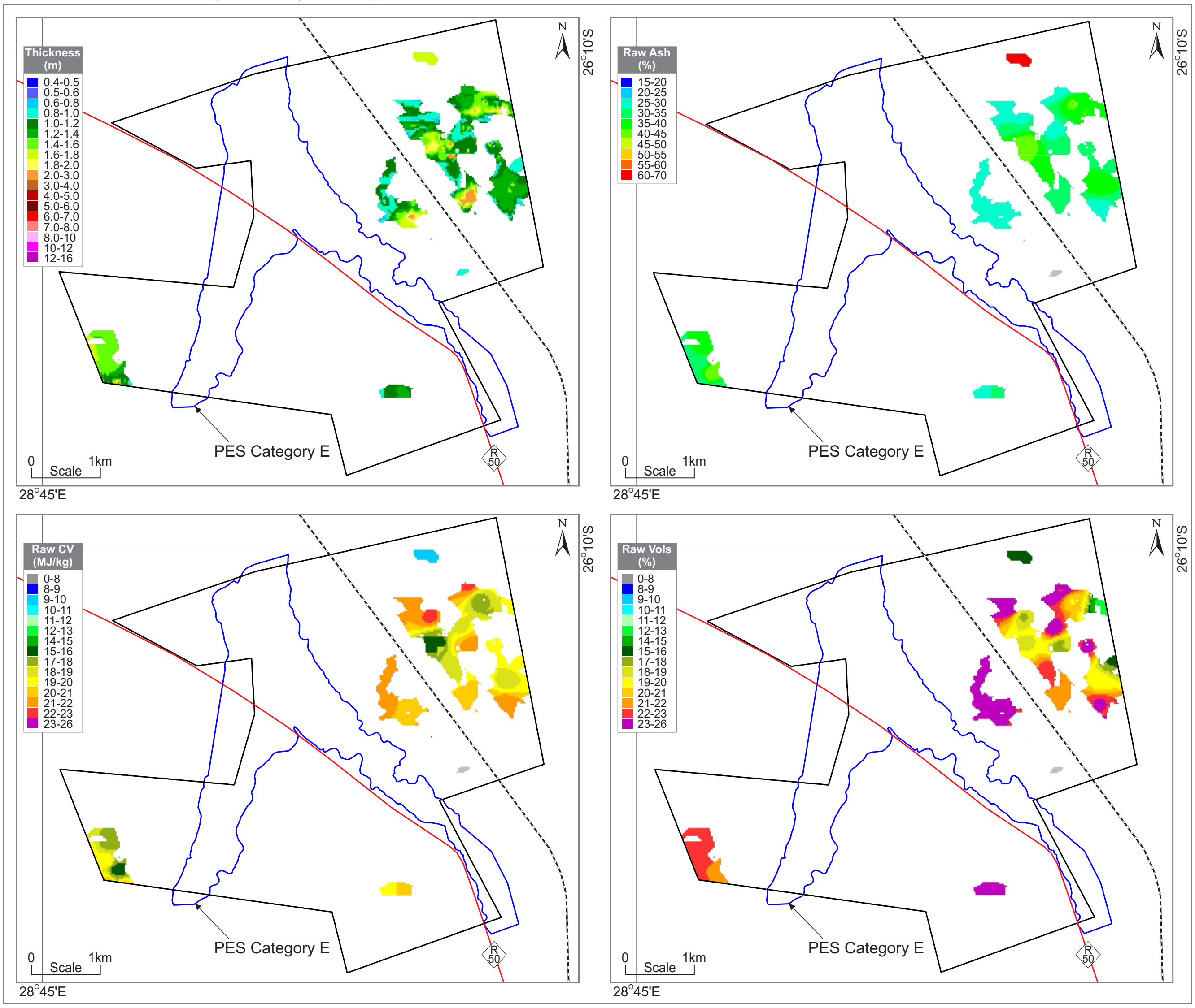


Figure 15: Coal Seam Mineral Resource Category Plots

Resource Classification for 2 Seam, 4 Seam and 5 Seam

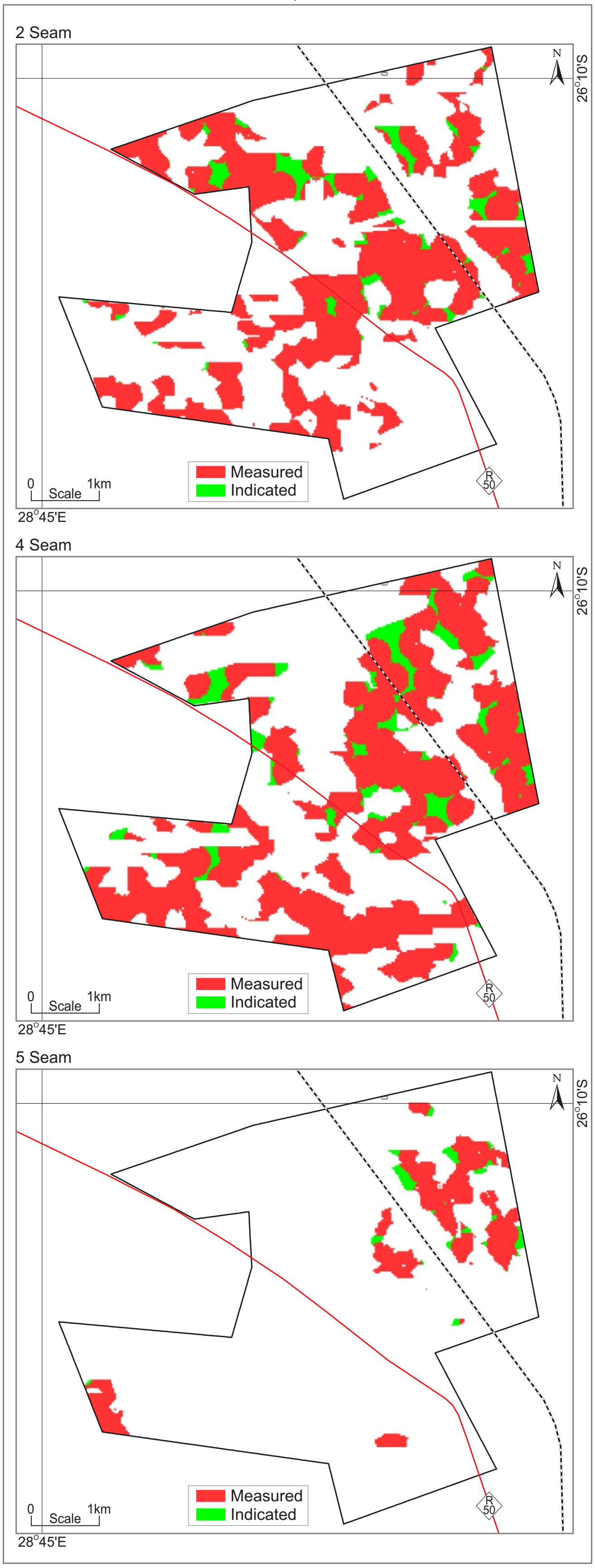


Table 4: Summary of the Mineral Resource Estimate for the Nsele Project (DMC, 2010)

COAL SEAM	RESOURCE CATEGORY	RAW DENSITY (gm/cc)	SEAM THICKNESS (m)	RAW CV (MJ/kg)	RAW ASH (%)	RAW VOLS (%)	GTIS* (Mt)	MTIS (Mt)
No.5 Seam	Measured	1.64	1.38	19.59	33.78	21.21	4.85	3.93
	Indicated	1.63	1.39	19.79	33.60	21.10	1.15	0.83
No.4 Seam	Measured	1.74	5.81	16.04	41.13	16.03	91.34	73.96
	Indicated	1.73	5.80	16.15	40.79	16.23	26.72	19.23
No.2 Seam	Measured	1.77	4.05	15.87	42.71	14.06	60.79	49.25
	Indicated	1.77	4.33	16.00	42.42	13.87	15.03	10.83
						GRAND TOTAL	**199.88**	**158.03**

Notes:-
**GTIS is based on full seam thickness.*
According to the SAMREC Code, portions of a coal deposit that do not have reasonable and realistic prospects for eventual economic extraction must not be included in the coal resources. This would include portions that contain burnt or weathered coal.
The criteria, on a weighted average, air dried basis, to define uneconomic coal are listed below:-
- *calorific value <12 MJ/kg and Volatile Matter content <10%;*
- *ash content >60%; and*
- *a minimum seam thickness cut-off of 0.5m was applied.*

A search radius of 500m from permissible points of observation (i.e. drillholes with quality data) was adopted; and
The SANS 10320:2004 criteria was applied to define Measured and Indicated Resources.
No allowance was made for possible sterilisation of resources by physical, geographical or statutory constraints.
Coal qualities have been reported on an air-dried basis;
For each seam intersection in a drillhole, the average raw coal quality was determined by combining individual samples over the full seam thickness. Averages were weighted by thickness and relative density;
The average qualities for each seam were weighted by tonnage; and
The average relative densities for each coal seam were weighted on a volumetric basis.

Reserves Statement

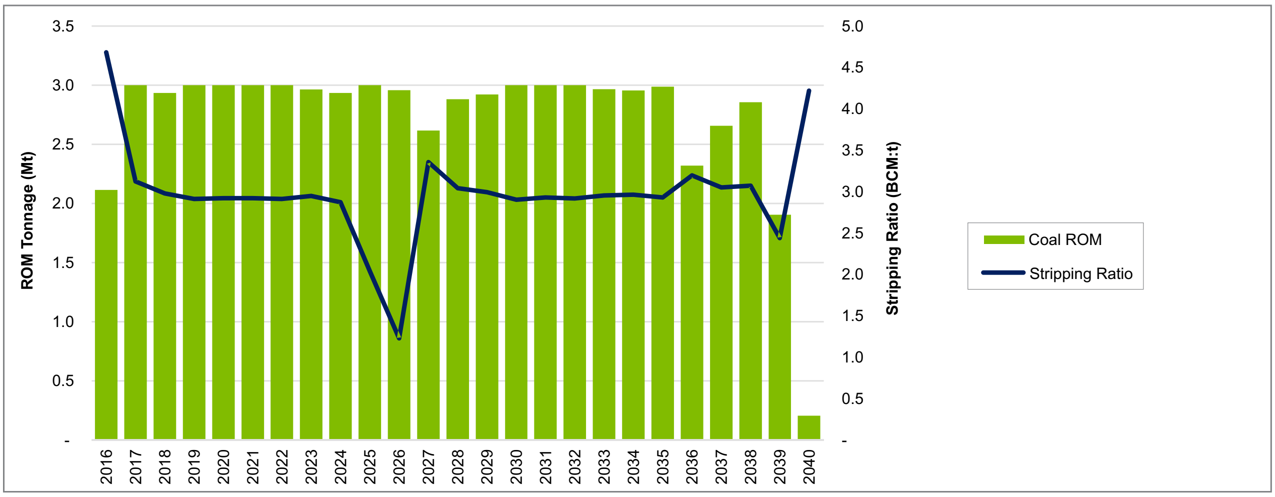
Mining Method and Life of Mine

The Nsele Project is proposed to be an opencast operation making use of the conventional truck and shovel roll-over mining technique for the extraction of the coal seams. The current mine design and production schedule for the Nsele Project originated from work done by VBKom Consulting Engineers (Pty) Ltd (VBKom) in December 2015, in the form of a Mining Technical Study. Although feasibility studies had been performed previously, the focus of the 2015 has been to simulate the production of local thermal coal as opposed to B-grade export primary wash and a thermal coal as secondary product which had been the strategy in previous feasibility studies. The RoM coal from the production schedule is therefore indicative in nature and does not constitute a reserve according to the SAMREC code.

For the first phase of the project, mining is planned to take place east of the wetland/100 year flood line in the Nsele Project lease area. This eastern block is traversed by a railway line, on either side of which the five proposed pits are located. Contract mining operations are planned to take place over a 25 year life of mine (LoM). Mining will take place at an average steady state waste stripping rate of 8.7Mbcmpa and 3Mtpa coal of coal mining, resulting in a stripping ratio of 3.0bcm/t, Figure 16 shows the LoM plan for the Nsele Project. With first phase of the mine planning completed for the Nsele Project east of the R50 road, Venmyn Deloitte, wishes to note that Nsele management have the intention to carry out an additional mining technical study, Phase 2 of the Nsele Project, on the resource block west of the R50 road. Additional mine planning in the western block of the lease area will contribute significantly to the overall LoM of the Nsele Project.

A total of 68.19Mt is planned to be mined from the five pits, with 65.69Mt meeting the greater than 14.5% volatile matter specification to produce a 21.5CV product and being processed to produce a total of 37.07Mt of thermal coal.

Figure 16: LoM Plan for the Nsele Project



Coal Processing and Metallurgical Testing

In February 2010, the results of the Definitive Feasibility Study (DFS) prepared by DMC staff and consultants were released. This DFS report on the Nsele Project has a ±20% accuracy and includes coal analysis results, process design criteria and a proposed coal beneficiation process.

Coal Analysis

Further to the February 2010 DFS reports on the Nsele Project, a Competent Person Report (CPR) was compiled in May 2010 by DMC staff and consultants. As part of this exercise, TrueGround Consulting (TrueGround) updated the coal analysis results on Nsele. The coal analysis for the Nsele Project was carried out at the Advanced Laboratory Solution (ALS), the main laboratory for analysing coal qualities in the Witbank area.

At the laboratory, the coal analysis process begins with a washability analysis of each sample. Each sample is then fractionalised and analysed at various relative densities. The standard relative densities used for the Nsele project, ranges from >1.2 to <2.0.

Other coal analyses carried out on the various samples, included:-

- moisture content (%);
- volatile content (%);
- ash content (%);
- calorific value (MJ/kg); and
- sulphur content (%).

The average RoM Coal qualities for the Nsele Project are summarised in Table 5.

On determining the qualities of the RoM samples, a DMS beneficiation process was used in the laboratory to separate the lower density coal from the higher density waste material using liquid medium with a density between the density of the product and the density of the waste. This liquid was not defined in the ALS report, but, can be assumed to be fine magnetite particles in water, as used in a standard Coal Handling and Preparation Plant (CHPP). The density of this medium is controlled by adding or removing water from the suspension to change the density of the coal reporting to the product to ensure that the quality meets the clients' specifications.

ALS used the Whiten equation to simulate a DMS beneficiation process for the RoM coal. This equation predicts the recovery of particles on the basis of density and is based upon two parameters, the density at which particles have 50:50 chance of either floating or sinking (ρ50), and the Ecart Probable (Ep), which is a measure of the efficiency of separation.

The Whiten equation:-

$$P_i = \frac{1}{1+e^{\left(\frac{1.099(\rho_{50} - \rho_i)}{E_p}\right)}}$$

Note:-

- P_i *The proportion of particles of the specified density that will report to the sinks.*
- ρ_{50} *The cut of density.*
- ρ_i *The average density of the particle's separation that is being evaluated.*
- E_p *The efficiency of the separation process (with lower numbers being better).*

The detailed analysis of the results of the coal analysis carried out on the various samples can be found in a report prepared by Sedgman Limited (Sedgman), an Australian based engineering company commissioned to design the beneficiation plant.

Outstanding in the Nsele Project coal analysis to date, is an analysis of the particle size distribution. This particle size distribution is an important consideration in a CHPP design as if it affects the washing characteristics of the coal and determines the design capacities of the various circuits within the CHPP.

Process Design Criteria

In 2009, Sedgman designed a 3.0Mtpa plant, based on the laboratory testwork carried out by ALS and a business case to produce both metallurgical and Eskom quality coals. However, in the light of a proposed offtake agreement between Nsele management and Eskom, Nsele management has reviewed its business case and now plans to produce only Eskom quality coal.

Therefore, the initial process design criteria (PDC) prepared by Sedgman is no longer applicable for the proposed Nsele processing plants, but rather a conceptual PDC based on similar neighbouring collieries operations, has been applied/used in the financial model.

Coal Processing

Based on Venmyn Deloitte experience working on coal Projects globally and particularly in the Witbank coalfields, Venmyn Deloitte is of the opinion, which the revised business plan to design and construct a CHPP producing only Eskom quality coal, is practicable, as there are a number of such processing CHPP, operating within the Witbank coalfields.

Table 5: Average RoM Coal Qualities

RD FROM	RD TO	AVERAGE RD OF INTERVAL	YIELD %	CV MJ/kg	ASH %	VOL %	FC %	MOIST %	S %
1.30	1.40	1.35	4.80	27.00	11.00	30.00	54.00	4.90	0.98
1.40	1.50	1.45	21.20	25.10	16.50	23.80	54.50	5.20	0.84
1.50	1.60	1.55	19.40	21.30	26.40	19.70	49.10	4.90	0.75
1.60	1.70	1.65	12.70	19.10	32.80	18.70	44.20	4.30	0.79
1.70	1.80	1.75	9.00	16.50	40.10	17.10	38.90	3.90	0.85
	1.80	1.80	32.90	10.70	56.50	15.70	24.60	3.10	4.17

Typically, a CHPP producing Eskom quality coal is expected the included the following:-

- RoM feed ramp and surge bin;
- primary and secondary double rolls crushers;
- DMS feed bin;
- a DMS plant;
- a spiral plant;
- a thickener tank;
- a slurry filtration plant; and
- a water reticulation system.

Below is a process description of a typical CHPP producing Eskom quality coals:-

- feed is crushed to a size of 40mm;
- the -40mm+1mm materials reports to the respective surge bins, whilst the +40mm recycled to secondary crusher;
- -40mm+1mm material is pumped into the respective DMS circuits;
- the DMS modules produce sinks (coarse discard) and float streams (Eskom coal products);
- the -1mm+0.15mm fine fraction reports to the spiral plant for upgrade;
- the -150micron ultrafine fraction reports via the thickener to the filter press plant;
- the thickener overflows gravitates into the classified tank water from where it is pumped into various sections of the plant as recovered/recycled water;
- the filtrate water from the filter press plant is recycled and reused in the CHPP; and
- the float streams from the DMS cyclones are dewatered and conveyed to the Eskom coal product stockpile.

Venmyn Deloitte has presented in Figure 17, a simplified Process Flow Diagram (PFD) of a 300tph CHPP.

The detailed analysis of the results of the coal analysis carried out on the various samples can be found in a report prepared by Sedgman Limited (Sedgman), an Australian based engineering company commissioned to design the beneficiation plant.

Outstanding in the Nsele Project coal analysis to date, is an analysis of the particle size distribution. This particle size distribution is an important consideration in a CHPP design as if it affects the washing characteristics of the coal and determines the design capacities of the various circuits within the CHPP.

Process Design Criteria

In 2009, Sedgman designed a 3.0Mtpa plant, based on the laboratory testwork carried out by ALS and a business case to produce both metallurgical and Eskom quality coals. However, in the light of a proposed offtake agreement between Nsele management and Eskom, Nsele management has reviewed its business case and now plans to produce only Eskom quality coal.

Therefore, the initial process design criteria (PDC) prepared by Sedgman is no longer applicable for the proposed Nsele processing plants, but rather a conceptual PDC based on similar neighbouring collieries operations, has been applied/used in the financial model.

Coal Processing

Based on Venmyn Deloitte experience working on coal Projects globally and particularly in the Witbank coalfields, Venmyn Deloitte is of the opinion, which the revised business plan to design and construct a CHPP producing only Eskom quality coal, is practicable, as there are a number of such processing CHPP, operating within the Witbank coalfields.

Typically, a CHPP producing Eskom quality coal is expected the included the following:-

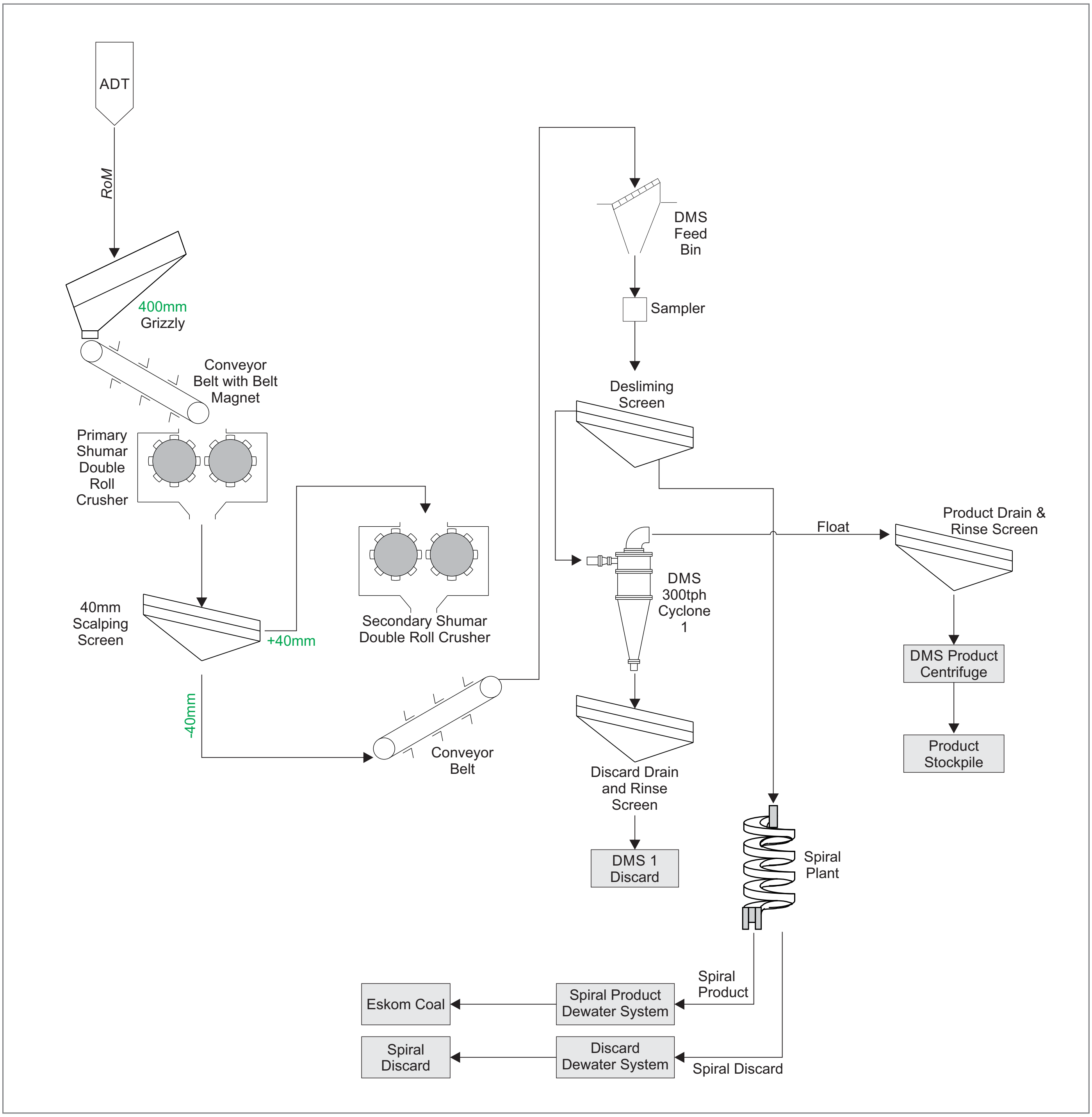
- RoM feed ramp and surge bin;
- primary and secondary double rolls crushers;
- DMS feed bin;
- a DMS plant;
- a spiral plant;
- a thickener tank;
- a slurry filtration plant; and
- a water reticulation system.

Below is a process description of a typical CHPP producing Eskom quality coals:-

- feed is crushed to a size of 40mm;
- the -40mm+1mm materials reports to the respective surge bins, whilst the +40mm recycled to secondary crusher;
- -40mm+1mm material is pumped into the respective DMS circuits;
- the DMS modules produce sinks (coarse discard) and float streams (Eskom coal products);
- the -1mm+0.15mm fine fraction reports to the spiral plant for upgrade;
- the -150micron ultrafine fraction reports via the thickener to the filter press plant;
- the thickener overflows gravitates into the classified tank water from where it is pumped into various sections of the plant as recovered/recycled water;
- the filtrate water from the filter press plant is recycled and reused in the CHPP; and
- the float streams from the DMS cyclones are dewatered and conveyed to the Eskom coal product stockpile.

Venmyn Deloitte has presented in Figure 17, a simplified Process Flow Diagram (PFD) of a 300tph CHPP.

Figure 17: PFD for the Proposed Nsele CHPP



Operating Costs

There are no operating expenditure figures for processing for the Nsele Project therefore Venmyn Deloitte researched similar Projects to that of the Nsele Project, to determine reasonable operating expenditure figures.

Based on similar operations, Venmyn Deloitte anticipates an average operating cost ZAR24.70/t RoM. This cost includes both the fixed and variable operating cost. A typical fixed cost will include the following:-

- staff salaries;
- skill development levies;
- fixed consumables, such as:-
  - workshop consumables;
  - office consumables;
  - vehicle fuel and maintenance;
  - capital equipment repayments – vehicles, offices, workshops;
  - software licences; and
  - communication cost.

The average operating cost of ZAR24.70/t RoM was determined by researching the processing cost per RoM tonne of comparable projects to that of the Nsele Project. The five comparable Projects that were selected to determine a reasonable processing cost for the Project in ZAR/RoM tonne are illustrated in Figure 18.

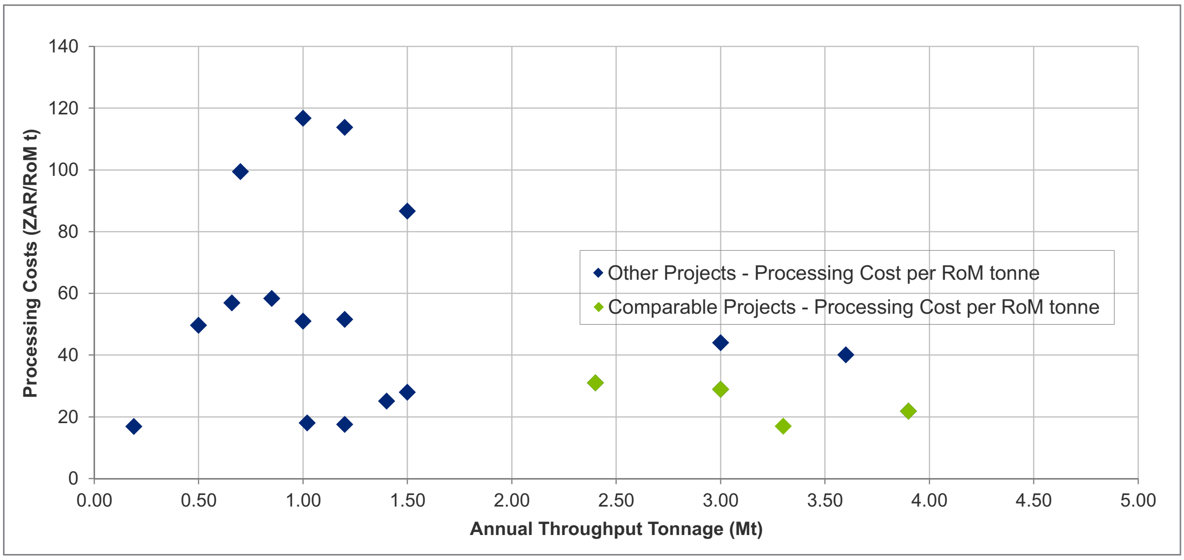
Capital Costs

Based on quotations from suppliers, Nsele management estimates that it would cost ZAR185.46m to construct a 300tph CHPP. A breakdown of the costs are illustrated in the Table 6.

Table 6: Processing Plant Capital Expenditure

ITEM	VALUE (ZAR)
RoM Feeding& Product Loading	1.94
Washing Plant	180.00
Laboratory (included in washing plant)	1.00
Discard operation establishment	2.52
TOTAL capital processing plant	**185.46**

Figure 18: Average Processing Cost per RoM Tonne



Environmental and Social Aspects

Environmental Studies and Permitting

Shangoni Management Services Proprietary Limited (Shangoni) has completed an Environmental and Social Impact Assessment Report (ESIAR) for the Nsele Project in accordance with the requirements of the National Environmental Management Act, 1998 (Act 107 of 1998).

Specialist studies undertaken for the purposes of the ESIAR have been performed in accordance with the requirements of South Africa's Specific Environmental Management Legislation (SEMA's), notably:-

- Mineral Petroleum Resources Development Act, 28 0f 2002;
- National Environmental Management Act, Act 107 of 1998;
- National Heritage Resource Act, Act 25 of 1999;
- National Environmental Management: Biodiversity Act, Act 10 of 2004;
- National Environmental Management: Air Quality Act, 2004; and
- National Water Act, Act 36 of 1998.

The studies performed included:-

- geohydrological investigation;
- soil, land capability and land use assessment;
- ecological report;
- environmental dust fallout survey;
- environmental noise survey;
- traffic assessment;
- heritage assessment; and
- aquatic assessment.

Key findings presented in the ESIAR are :-

- construction of open pits: The nature of the mining activity will result in the removal of the geological structures. The proposed open pit mining activities as part of the Nsele Coal Mine will affect the geology of the area. The value of the geology in this area is realised as a mineral resource and it is anticipated that changes to the geology of the area, will have a significant impact on the wetland areas;
- construction of plant infrastructure and open pit mining operations: The construction of infrastructure will result in a change in land use from sensitive wetland area to one that is mining. This change in land use will impact on the water catchment area in terms of quality and quantity, and therefore will impact on the local community;
- open pit excavation: open pit mining activities will increase fracturing of the rock material and thus the flow characteristics of the aquifer;
- destruction of wetland habitat and loss of wetland function: Major environmental concerns include wetland degradation, soil erosion and storm water management. The proposed coalmine has the potential to impact severely on the wetland habitat and function of the area. It may also have a significantly negative impact on the water supply of the Bronkhorstspruit dam. The locations of the mining pits were however moved outside of the B-class wetland areas. Mining will still commence within the C and D-class wetlands if the Department of Environmental Affairs grants authorisation; and
- operational mining activities: operational phase activities will impact on existing graves and homesteads, and will need to be mitigated accordingly, an in alignment with the requirements of the South African National Heritage Resources Act (SAHRA) (Act 25 of 1999).

The ESIAR, and accompanying Environmental Management Programme (EMPr) was accepted by the Mpumalanga provincial government Department of Economic Development, Environment and Tourism on the 6 August 2012.

The environmental authorisation notes that additional environmental licences must be applied for and granted before any mining operations can commence. These applications include:-

- a Water Use Licence (WUL) in accordance with the requirements of the National Water Act (Act 36 of 1998); and
- a Waste Management Licence (WML) in accordance with the requirements of the National Environmental Management: Waste Act (NEM:WA) (Act 59 of 2008).

Delta Mining has submitted a WUL application. Venmyn Deloitte understands that Delta Mining is awaiting a response from the Department of Water and Sanitation, the regulatory authority in South Africa which issues WULs.

Social and Community Studies and Permitting

Section 23 of The Mineral and Petroleum Resources Development Act (Act 28 of 2002) (MPRD Act) established the requirement for the development of a Social and Labour Plan (SLP) to be in place for the life of every mining right as a requirement for the granting of a new order mining right.

The objectives of the SLP (as per section 41 of the Regulations) are to:-

- promote employment and advance the social and economic welfare of all South Africans;
- contribute to the transformation of the mining industry; and
- ensure that holders of mining rights contribute towards the socio-economic development of the areas in which they are operating.

The proposed workforce will be largely sourced from the Delmas Local Municipality (DLM) and the Nkangala District Municipality (NDM). Local resident status of the recruits will be verified in conjunction with community representatives. For those occupations where labour cannot be sourced locally, focus will be placed on obtaining this labour, wherever possible, from the rest of the Mpumalanga Province and from the Gauteng and North West provinces.

Mine Closure Provision, Closure and Rehabilitation Planning

Sections 41 to 47 of the MPRDA address legislative closure requirements. GNR 527 of the MPRDA addresses the financial provision for mine rehabilitation and closure and requires that the quantum of financial provision, to be approved by the Minister, must be based on the requirements of the approved EMP and shall include a detailed itemisation of all actual costs required for:-

- premature closure regarding:-
  - the rehabilitation of the surface of the area;
  - the prevention and management of pollution of the atmosphere;
  - the prevention and management of pollution of water and the soil; and
  - the prevention of leakage of water and minerals between subsurface formations and the surface.
- decommissioning and final closure of the operation; and
- post closure management of residual and latent environmental impacts. Regulation 54(2) requires annual financial closure estimation and associated financial adjustment.

Shangoni has included a preliminary estimation of the closure and rehabilitation liability for the proposed mine plan and schedule for the Nsele Project in the approved EMPr.

The calculation of premature closure cost and LoM closure cost has been estimated in accordance with the requirements of the guideline provided by the Department of Mineral Affairs (GNR 547 of 2005). The calculations are based on current mine planning, and excludes the possibility of water treatment in the future. Shangoni has illustrated that the calculation of the quantum will need to be reviewed and updated prior the commencement of mining activities.

The preliminary closure and rehabilitation liability has been estimated at ZAR28,013,508, including VAT and preliminary and general costs.

Venmyn Deloitte has often found that, when using the DMR methodology, the resulting quantum is often underestimated. Additionally, the DMR methodology does not address all the components which need to be considered for an appropriate mine closure, the shortcomings of which are often highlighted when a closure permit is applied for at the end of the LoM. These shortcomings must be addressed before a closure permit is granted, and often result in significant additional costs which need to be carried by the mine owner. Typical contributing sources to the closure and rehabilitation liability quantum include the rehabilitation requirements included within environmental authorisations, WULs and WMLs. The presence of various wetlands within the proposed Project area will most certainly result in the need for additional closure and rehabilitation management and costs.

Given these shortcomings, many mining companies request that two estimates be provided - one using the DMR methodology to satisfy legislative provisional requirements, and another using current contractor rates, which also considers all appropriate closure aspects, to provide a more accurate closure liability estimate.

Venmyn Deloitte recommends that an independent assessment of the actual closure liability be performed for the Nsele Project, to better understand the magnitude of the potential closure and rehabilitation liability.

Mineral Asset Valuation

Venmyn Deloitte was commissioned by Delta Mining to perform an independent valuation of the Nsele mineral asset using the South African Code for the Reporting of Mineral Asset Valuation (SAMVAL Code). To this end, appropriate valuation methods will be used and the mineral asset will be examined on its merits and demerits.

Mineral Asset Valuation Methodologies

Any decision to apply a valuation technique will depend principally on the stage to which the Project has been developed, the geological confidence and the potential of the mineral asset to demonstrate reasonable and realistic prospects for eventual economic extraction. The valuation approach for a greenfields project will be substantially different from that applied to a well-drilled, extensively explored mineral asset. Changes in the value of a mineral asset are associated with increasing confidence through increased knowledge, as well as the greater degree of probability of it being brought to account. An appropriate valuation recognises these possibilities.

Furthermore, a valuation exercise may produce different outcomes for the same mineral asset depending on which valuation method has been applied and, therefore, a realistic and reasonable range of values will be given.

The three main different valuation approaches as stipulated in the SAMVAL Code are the Cost Approach, Market Approach/ Comparative Approach and the Income Approach / DCF Approach. The valuation approaches incorporate the respective Mineral Resource and Ore Reserve categories on the following basis:-

- stage of development;
- level of geological confidence in the interpretation of the geology and mineralisation;
- the depth of the defined Mineral Resources and Ore Reserves relative to surface i.e. whether the undeveloped Mineral Resources are likely to be mined early, or later in the production plan, and at what relative cost;
- the availability of existing mining infrastructure and mineral production within the Project area, i.e. whether the undeveloped Mineral Resources and Ore Reserves are likely to be mined as an extension of a pre-existing operation; and
- relative difficulty or ease of mining conditions largely due to complex geological structures, and whether or not they are conducive to mechanised mining.

In conducting mineral asset valuations, Venmyn Deloitte considers the following categories of mineral assets:-

- Exploration Areas - properties where mineralisation may or may not have been identified, but where a mineral or petroleum resource has not been identified;
- Advanced Exploration Areas - properties where considerable exploration has been undertaken and specific targets have been identified that warrant further detailed evaluation, usually by drill testing, trenching or some other form of detailed geological sampling. A resource estimate may or may not have been made but sufficient work will have been undertaken on at least one prospect to provide both a good understanding of the type of mineralisation present and encouragement that further work will elevate one or more of the prospects to the resource category;
- Pre-Development Projects - properties where mineral or petroleum resources have been identified and their extent estimated (possibly incompletely) but where a decision to proceed with development has not been made. Properties at the early assessment stage, properties for which a decision has been made not to proceed with development. Properties on care and maintenance and properties held on retention titles are included in this category if mineral or petroleum resources have been identified, even if no further valuation, technical assessment, delineation or advanced exploration is being undertaken;
- Development Projects - properties for which a decision has been made to proceed with construction and/or production, but which are not yet commissioned or are not yet operating at design levels; and
- Operating Mines - mineral properties, particularly mines and processing plants that have been commissioned and are in production.

According to these categories, the Nsele Project has been classified as a Pre-Development Project.

Where insufficient confidence exists in the technical parameters of a mineral deposit or mineral asset to classify resources valuation methods mainly rely on the principle of historical cost. This implies that a mineral asset's value is related to the money spent on its acquisition, plus a multiple of the exploration expenditure, depending upon the degree to which its prospectivity has been enhanced by exploration.

Once resources have been classified, then market comparisons can be made on a monetary value per unit of mineralisation (eg. ZAR/t).

After technical studies establishing the basis for future economic exploitation have been carried out, Discounted Cashflow (DCF or Cashflow) methods are applicable and all the methods used to identify a reasonable transaction value.

As the confidence in mineral resource estimates is increased, i.e. from Inferred Mineral Resources to Indicated Mineral Resources and Measured Mineral Resource, so is the veracity of the valuation. The valuation approaches and the underlying methodologies that Venmyn Deloitte adopts in mineral asset valuation are summarised in Table 7 whilst Figure 19 shows the general movement of Projects up the value curve with increasing amount of geoscientific knowledge. In other words, Table 7 and Figure 19 illustrate the link between a Project's development status and the most appropriate valuation methodology.

Certain valuation methods are more widely used and may be more generally acceptable as industry practice than others, although this could change over time. Some methods can be considered to be primary methods for valuation while others are secondary methods or rules of thumb considered suitable only to check valuations by primary methods but it is imperative to use at least two methods.

In performing the valuation of the Nsele Project, Venmyn Deloitte has relied on the Market and DCF Approaches, as deemed appropriate for the mineral asset.

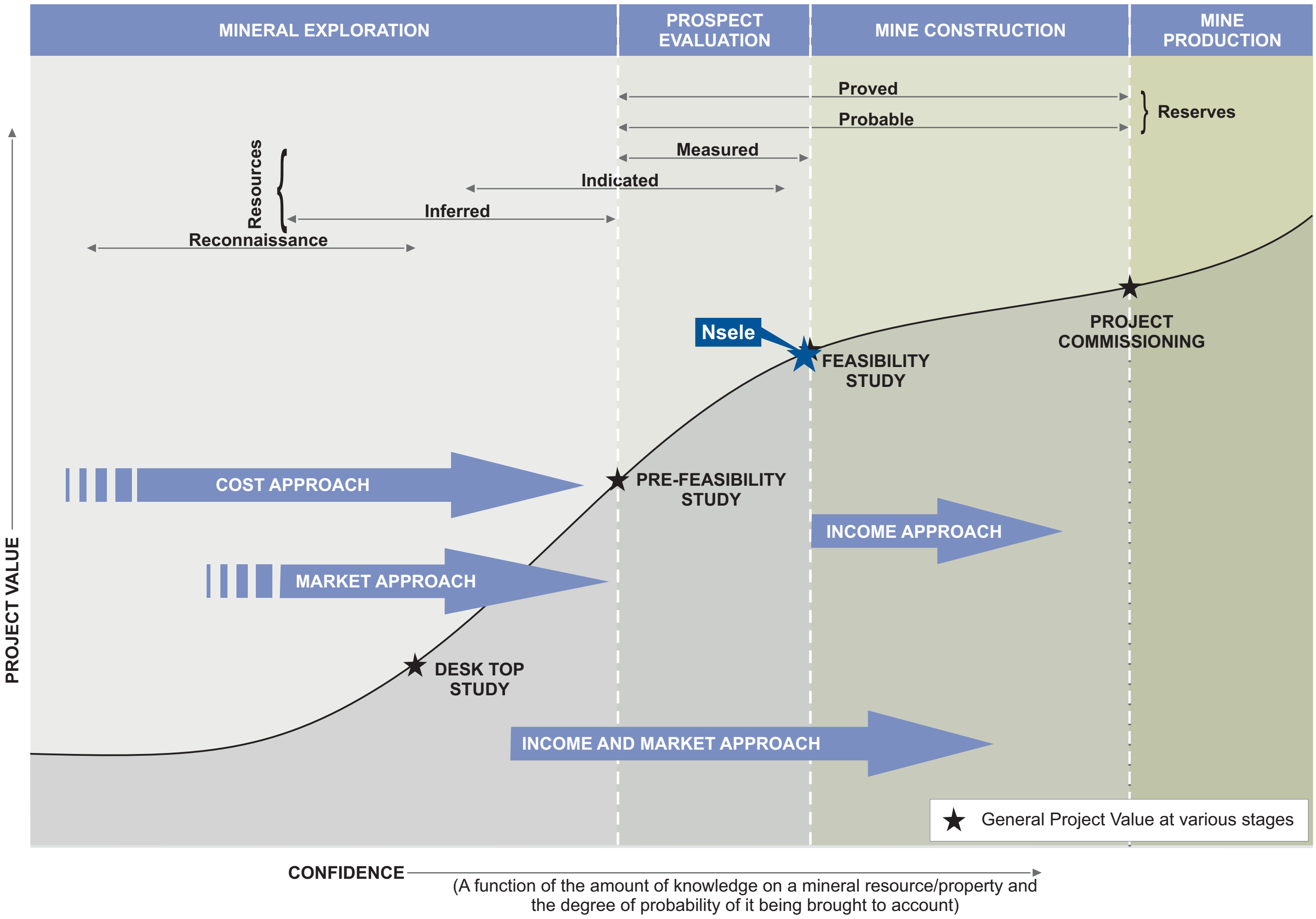
Valuation Date

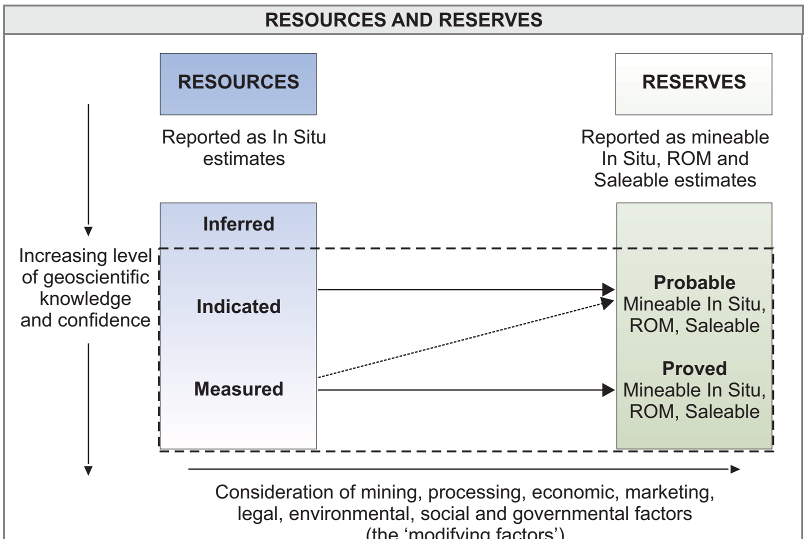
The effective date of the Valuation is 30 August 2015.

Table 7: Valuation Approaches and Methodologies

VALUATION APPROACH	VALUATION METHODOLOGY	DORMANT PROPERTIES	EXPLORATION PROPERTIES	MINERAL RESOURCES	DEVELOPMENT PROPERTIES	MINING PROPERTIES	DEFUNCT PROPERTIES
Cashflow	DCF	No	No	Yes	Yes	Yes	No
Sales/Market Comparisons	Comparable	Yes	Yes	Yes	Yes	Yes	Yes
Cost	Multiple of Historical Cost	Yes	Yes	Yes	No	No	Yes

Figure 19: Project Lifetime Value And Valuation Methodology Curve for Coal Assets





Source: SAMREC

General Mineral Asset Valuation Assumptions

The Nsele Project has been valued using appropriate methodologies as described in the relevant Project sections to follow. These valuations have been based on a number of specific assumptions as discussed in the relevant Project sections, including the following general assumptions, as relevant:-

- that all information provided to Venmyn Deloitte, by Delta Mining and its contractors can be relied upon;
- that the valuations are with respect to the face value of the mineral assets only;
- that the legal status of the mineral rights and statutory obligations were fairly stated;
- that the mineral licences will be kept valid and that they can be converted to mining licences in the future;
- that expired prospecting rights will be successfully renewed;
- that the prospecting rights and mining rights will be kept valid;
- that all other regulatory approvals for exploration and mining will be timeously obtained;
- that the corporate structures and on-going activities are fairly presented;
- that reliance can be placed on the exploration expenditures provided by Delta Mining;
- that reliance can be placed on the Financial Statements and Management Accounts provided by Delta Mining;
- that reliance can be placed on the current mineral resource and/or reserve statements;
- that the coal quality lends itself to the production of a marketable product;
- that Delta Mining and its subsidiaries would continue as going concerns and would continue to be fully funded; and
- that Delta Mining would be able to secure markets and offtake for any future operations.

Venmyn Deloitte made due enquiry into these issues to be satisfied of the potential impact on the mineral asset valuation.

Venmyn Deloitte has relied upon and assumed the accuracy of the information provided to it in deriving its opinion. Where practical, Venmyn Deloitte has corroborated the reasonableness of the information provided to it for the purpose of its valuation, whether in writing or obtained in discussion with management of Delta Mining, by reference to publicly available or independently obtained information.

Venmyn Deloitte's valuations are based on current economic, regulatory, market as well as other conditions. Subsequent developments may affect these valuations, and Venmyn Deloitte is under no obligation to update, review or re-affirm its valuations based on such developments.

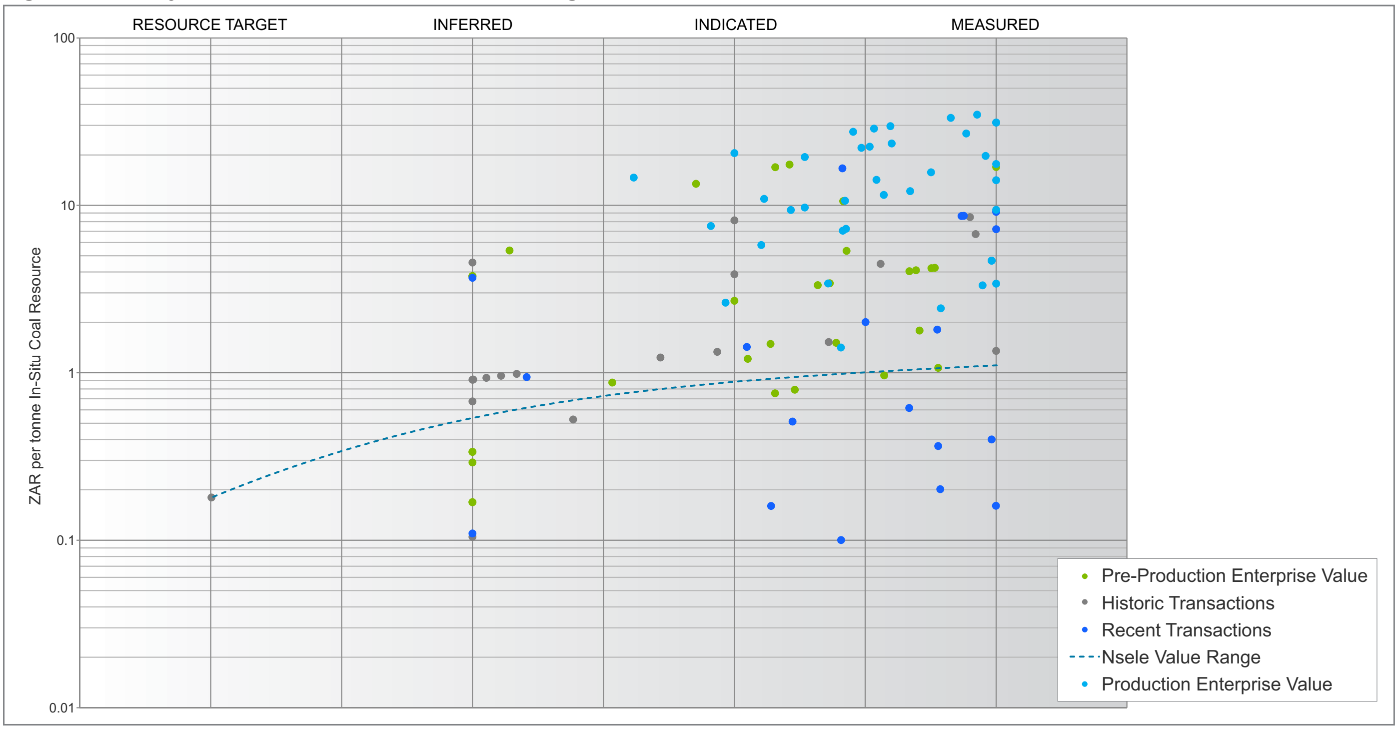
Market Approach

The Market Approach relies on the principle of “willing buyer, willing seller” and requires that the amount obtainable from the sale of the asset is determined as if in an arm's length transaction. However, in order to arrive at reasonable market values with which to compare any mineral asset undergoing valuation, appropriate recent and historical transactions must form the basis.

Venmyn Deloitte was able to carry out a comparable transaction valuation of mineral assets where the coal resources have been declared on the basis that recent market valuations of a similar nature provide the proxy for value.

Venmyn Deloitte has utilised its entire coal transaction database to derive an appropriate comparable transaction value. Venmyn Deloitte maintains a database of coal transactions of various qualities and unit market capitalisations of coal operating companies, which is continually updated. This information is collated to produce the Venmyn Deloitte Coal Valuation Curve and is illustrated in Figure 20.

Figure 20: Venmyn Deloitte Coal Valuation Curve, 30 August 2015



This curve demonstrates the range of indicative market-related values of ZAR/t contained coal attributed to the different categories of Mineral Resources and Ore Reserves and more importantly, it demonstrates that the unit values associated with the Witbank/Ermelo coalfields occur towards the top of the overall South African Coalfields' valuation range. The figure also demonstrates that production properties within the Witbank/Ermelo coalfields generally achieve significantly higher unit values than pre-production Projects.

The quantification of the discount is a subjective one but Venmyn Deloitte is of the opinion that the ranges defined are reasonable in light of historic transactions and consideration of the following:-

- location of the mineral deposits;
- proposed mining method;
- the quality of the coal deposits;
- the classified coal mineral resources;
- infrastructure and logistics; and
- timing of potential exploitation.

The unit values have been generated using the coal valuation curve (Figure 20) and these have been multiplied by the contained Gross In-Situ Tonnage (GTIS) of the coal deposits. The Nsele Project was valued using the Market Approach valuation method based on the conclusions of Table 8.

The comparative value ranges used in determining the value of mineral assets varies mainly because of the level of development of the Project and the proposed mining methods for the Project. A summary of the value ranges used in valuing the Project, for various mineral resource classifications, is shown in Table 8 and Figure 20.

The value range derived from the Market Approach is between ZAR171.32m (low valuation) and ZAR254.83m (upper valuation), and a Preferred Value of ZAR213.07m on a 100% attributable basis. This valuation range was calculated from the range of unit values as defined by the Market Approach. The value range reflects the level of confidence attached to the respective coal resources (which are inclusive of the coal reserves). The population of historic market transactions and valuations provides an indication of reasonability.

Cash Flow Approach

The Cashflow Approach relies on the “value-in-use” principle and requires determination of the present value of future cash flows over the useful life of the mineral asset. The objective of the DCF valuation is to apply the proposed and realistic technical and economic parameters described in the relevant sections in this report, using the known information and experience on similar Projects as a basis of exploitation, and to cross-check the result with Venmyn Deloitte's coal valuation curve envelope.

To this end, Venmyn Deloitte has researched and used the most appropriate and realistic input assumptions with respect to mining, economic, environmental and other relevant issues to provide a valuation profile which reflects the business case of the Nsele Project as accurately as possible within the constraints of the existing information. The outputs of the valuation were principally net present value (NPV) and internal rate of return (IRR) under the current mining, metallurgical, and economic environment.

The selection of the DCF method was influenced by the ability of the methodology to capture the pertinent technical and economic aspects of the Projects and the historical information available, to enable an informed investment decision on the Projects. Applicable financial model inputs and factors were researched and used in preparing the DCF model.

The results of this valuation would be an indicator of the present value of the Project given the quality and quantity of information given and the quality of the estimates made as detailed in the following sub-sections.

Coal Prices and Exchange Rates

The thermal coal produced at the Nsele Project will be sold locally to Eskom. In selecting appropriate coal pricing assumptions for the DCF analysis, Venmyn Deloitte has taken into account existing contracts with other local buyers. The Eskom coal produced at the Nsele Project has a quality of 21.5MJ/kg. A price of ZAR15.63/GJ was selected to use in the DCF model and results in a coal price of ZAR336.05/t for the Eskom product.

Table 8: Valuation of Nsele Mineral Asset using the Market Approach, 30 August 2015

PROJECT	RESOURCE CLASS	GTIS	UNIT VALUE (ZAR/t)		TOTAL PROJECT VALUE (100% BASIS) (ZARm)		
		(Mt)	LOWER	UPPER	LOWER	UPPER	PREFERRED
Nsele	Measured	156.99	0.90	1.35	141.29	211.93	**176.61**
	Indicated	42.90	0.70	1.00	30.03	42.90	**36.46**
GRAND TOTAL/AVERAGE		**199.89**	**0.86**	**1.27**	**171.32**	**254.83**	**213.07**

Venmyn Deloitte has, under confidentiality, considered the various prices being offered to Nsele's competitor mines as well as the mine gate prices that are being offered to mines comparable to and near to the Nsele Project. This has provided Venmyn Deloitte with sufficient comfort in the coal prices selected for use in the DCF model.

All costs and revenue are in South African Rand, therefore no exchange rate assumptions were considered.

Discount Rate

The discount rate used to equate the future cash flows to their present value reflects the risk-adjusted rate of return demanded by a hypothetical investor for the asset or business being valued. Discount rates are determined based on the cost of an entity's debt and equity weighted by the proportion of debt and equity used. This is commonly referred to as the Weighted Average Cost of Capital (WACC). The WACC can be derived using the following formula:-

$$WACC = \left(\frac{E}{V} * K_e\right) + \left(\frac{D}{V} * K_d \ (1 - t_c)\right)$$

The key components of the formula are:

K_e	*Cost of equity capital*
K_d	*Cost of debt*
T_c	*Corporate tax rate*
E/V	*Proportion of company funded by equity*
D/V	*Proportion of company funded by debt*

For the purposes of the valuation of the Nsele Project, it is assumed that the Project is 80% equity financed and 20% debt financed based on the review of comparable company capital structures.

The adjustment of Kd by (1-tc) reflects the tax deductibility of interest payments on debt funding. The corporate tax rate has been assumed to be 28%, in line with the South African corporate tax rate.

CAPM (Ke) calculates the minimum rate of return that the company must earn on the equity-financed portion of its capital to leave the market price of its shares unchanged. The CAPM is the most widely accepted and used methodology for determining the cost of equity capital.

The cost of equity capital under CAPM is determined using the following formula:-

$$K_e = R_f + ß \ (R_m - R_f) + a$$

The key components of the formula are:

K_e	*Required return on equity*
R_f	*The risk-free rate of return*
R_m	*The expected return on the market portfolio*
$ß$	*Beta, the systematic risk of a stock*
a	*Alpha, the specific company risk premium*

Each of the components in the above equation is discussed below.

Risk free rate (Rf)

The risk free rate compensates the investor for the time value of money and the expected inflation rate over the investment period. The frequently adopted proxy for the risk free rate is the long-term government bond rate. In determining Rf, Venmyn Deloitte has taken the yield to maturity of the R186 South African Government bond. The R186 matures in 2026. The yield to maturity of the R186 on 30 August 2015 was 8.28%.

Equity market risk premium (EMRP)

The EMRP (Rm – Rf) represents the risk associated with holding a market portfolio of investments, that is, the excess return a shareholder can expect to receive for the uncertainty of investing in equities as opposed to investing in a risk free alternative. The size of the EMRP is dictated by the risk aversion of investors – the lower (or higher) an investor's risk aversion, the smaller (or larger) the equity risk premium.

The EMRP is not readily observable in the market and therefore represents an estimate based on available data. There are generally two main approaches used to estimate the EMRP, the historical approach and the prospective approach, neither of which is theoretically more correct or without limitations. The former approach relies on historical share market returns relative to the returns on a risk free security; the latter is a forward looking approach which derives an estimated EMRP based on current share market values and assumptions regarding future dividends and growth.

Based on Deloitte & Touche Corporate Finance research, studies have shown that the equity risk premium lies within the range of 6% and 7% in the South African market. Having considered the various approaches and their limitations, Venmyn Deloitte considers an EMRP of 6.8% to be appropriate for the purposes of the valuations in this report.

Beta estimate (β)

The beta coefficient measures the systematic risk or non-diversifiable risk of a company in comparison to the market as a whole. Systematic risk, as separate from specific risk as discussed below, measures the extent to which the return on the business or investment is correlated to market returns. A beta of 1.0 indicates that an equity investor can expect to earn the market return (i.e. the risk free rate plus the EMRP) from this investment (assuming no specific risks). A beta of greater than one indicates greater market related risk than average (and therefore higher required returns), while a beta of less than one indicates less risk than average (and therefore lower required returns).

In estimating an appropriate beta for these valuations, the betas of listed companies that are comparable to Delta Mining was considered. These betas were calculated based on monthly returns, over a five year period, compared to the Global Metals and Mining index. A beta of 1.37 was selected for the purposes of the valuation presented in this report.

Specific Project risk premium (α)

Venmyn Deloitte assesses a mineral asset against the following factors that influences the Project specific risk premium (α).

Venmyn Deloitte calculates the Project specific risk premium α as [$\alpha = \Sigma \mu i \ xi$], where xi is the maximum estimated contribution to α for the factor listed, and μi is the sensitivity to that factor. Qualitatively Venmyn Deloitte rank the sensitivity to the factors as low, normal, above normal and high. A low rank gives a sensitivity factor of 0, a normal rank gives 0.1, a higher than normal rank gives 0.4 and a high rank gives 1. The calculation of α is presented in the Table 9.

The discount rate calculation is summarised in the Table 10.

Table 9: Specific Project Risk Premium Calculation

DETAILS		FACTOR (x%)	RANK	FACTOR SENSITIVITY μ
Reserves	The confidence level in the declared mineral reserve	1.98%	Normal	0.30
Commodity Prices	Reasonability of assumed price levels based on volatility and long term forecasts	1.42%	Above Normal	0.63
Operating Costs	The confidence in the estimates of operating costs	1.10%	Above Normal	0.63
Political and Country Risk	General market perception of the mining industry in operating country	0.98%	Normal	0.30
Social and Environmental		0.81%	Above Normal	0.63
Location	The proximity of the project to infrastructure	0.63%	Low	0.00
Capital Costs	The confidence in the estimates of capital costs	0.62%	Above Normal	0.63
Management	Management experience	0.30%	Normal	0.30
Ownership	Status of mining rights, exploration rights and ownership of project	0.32%	Low	0.00
Taxation	Likelihood of changes in royalty and tax regime in operating country	0.20%	Low	0.00
Recovery	Confidence in eventual economic extraction of minerals	0.12%	Normal	0.30
Data Quality	Quality of technical information and QA/QC processes	0.10%	Normal	0.30
Geology	Structural complexity of the orebody	0.08%	Normal	0.30
Cost Inflation	Reasonability of cost escalation assumptions	0.08%	Normal	0.30
Mining Processing Method	Risk associated with mining and processing methods	0.06%	Low	0.00
Development Stage	Pre-production, producing or end of life	0.06%	Above Normal	0.63
Life Of Mine		0.04%	Low	0.00
Scale of Project	Project size	0.03%	Normal	0.30
Expansion	The ability to increase reserves	0.02%	Normal	0.30
			TOTAL α	**3.61%**

Table 10: The Discount Rate Calculation

ITEM	VALUE
RSA Inflation Rate	5.60%
RSA Risk Free Rate	8.28%
Company Beta	1.37
Market Risk Premium	6.75%
Project Alpha	3.61%
Equity Weight	80.00%
Debt Weight	20.00%
Real WACC Rate	**12.38%**

Taxation

In South Africa, the current company tax rate is 28% after full recovery of all capital expenditure deducted in the year it is expended. In South Africa, the calculated royalty rate for the Project is based on the formula provided in the latest Mineral and Petroleum Resources Royalty Act (MPRRA).

The royalty is determined by multiplying the gross sales value of the extractor, in respect of that mineral resource, in a specified year, by the percentage determined by the royalty formula. Both direct operating expenditure (opex) and capital expenditure (capex) incurred is deductible for the determination of earnings before interest and tax (EBIT). The quantum of the revenue royalty on all minerals is dependent on the profitability of the company based on the following formula.

For refined mineral resources the formula is:-

$$Royalty\ Rate = 0.5 + \frac{EBIT}{Gross\ Sales\ (refined)\ x\ 12.5}\ X\ 100$$

The maximum percentage for refined mineral resources is 5%.

The unrefined mineral resources formula is:-

$$Royalty\ Rate = 0.5 + \frac{EBIT}{Gross\ Sales\ (unrefined)\ x\ 12.5}\ X\ 100$$

The maximum percentage for unrefined mineral resources is 7%.

The capital expenditure incurred by a mining company qualifies for a deduction in full in the year in which it is spent. Since most mining capital cannot be written off in the year in which it is incurred, if insufficient taxable revenue is generated in any single year, the unredeemed capital balance is carried forward to the next tax year.

Operating Expenditure

The operating expenditure figures that have been used in the report are shown in Table 11 and Table 12.

Table 11: Nsele Operating Expenditure – Mining Costs

ITEM	VALUE	UNITS
Softs - waste	19.00	ZAR/bcm
Hards - waste	32.00	ZAR/bcm
5&4 Seam Parting - waste	35.00	ZAR/bcm
4&2 Seam Parting - waste	36.00	ZAR/bcm
Coal Waste	28.15	ZAR/bcm
5 Seam - ROM	22.00	ZAR/bcm
4 Seam - ROM	31.00	ZAR/bcm
2 Seam - ROM	23.00	ZAR/bcm

Table 12: Nsele Operating Expenditure – Excluding Mining Costs

ITEM	VALUE	UNITS
Processing	24.70	ZAR/t ROM
General and admin	14.91	ZARm per annum
Head office costs	15.09	ZARm per annum
Environmental rehabilitation guarantee	89.76	ZARm
Environmental rehabilitation contribution	2.00	ZAR/t ROM
Social development and responsibility	0.70%	% of revenue

Capital Expenditure

The capital expenditure figures that have been used in the report are shown in the Table 13.

Table 13: Nsele Capital Expenditure (ZARm)

ITEM	VALUE
Mining and boxcut establishment	52.00
Purchase of surface rights	75.00
Site establishment	6.00
Process plant	185.46
Infrastructure	25.64
Power	2.77
Owners costs	11.33
Sub-total	**358.20**
Contingency (@ 15% of total capital)	53.73
Total capital outlay	**411.93**

Stay in Business (SIB) capital has been estimated at 2.5% of the capex less surface rights cost, owner's cost and contingency.

A further breakdown of the processing plant capital costs can be found in the Coal Processing and Metallurgical Testing section of this report.

Technical Assumptions

For details relating to the technical assumptions employed in the valuation refer to the individual engineering sections.

DCF Valuation Results

Venmyn Deloitte used these parameters and modifying factors to construct an independent cash flow model in constant money terms.

The cash flow valuation resulted in an NPV of ZAR391m. Extracts of the financial models are given in Table 14 and Appendix 1.

Table 14: Nsele DCF Parameters

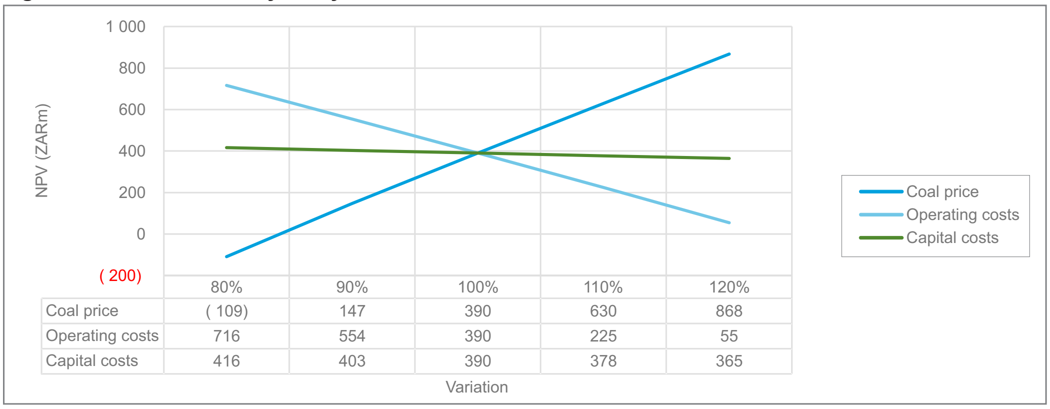
DESCRIPTION	VALUE	UNITS
Discount rate	12.37%	%
NPV	391	ZARm
IRR	25%	%
Unit value	5.74	ZAR/t MTIS

Sensitivity Analysis

The NPV generated from the DCF model proved to be most sensitive to changes in parameters affecting operating income, namely price of sold product and yield. The NPV is less sensitive to changes in operating expenditure, and least sensitive to capital expenditure. The sensitivity analysis is illustrated in Figure 21. For ease of reference, the graph incorporates a data table which shows the actual NPV values associated with the sensitivity factors applied to each of coal price, operating costs and capital costs.

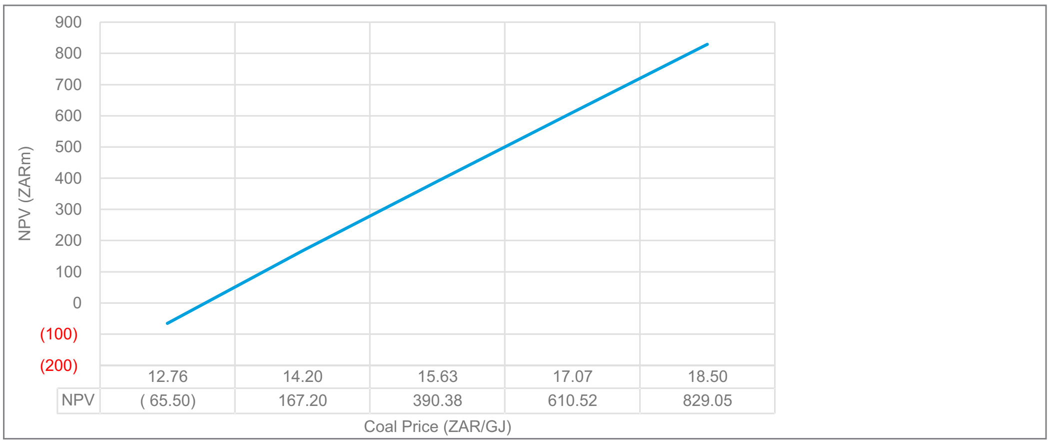
Venmyn Deloitte has taken an additional step in analysing the coal price sensitivity by using actual prices (in ZAR/GJ) rather than applying a sensitivity factor (as a percentage) to the base case coal price of ZAR15.63/GJ. In this analysis a maximum and minimum price of ZAR18.50/GJ and ZAR12.76/GJ respectively. Similarly, for ease of reference, the graph, shown in Figure 22, incorporates a data table which shows the actual NPV values associated with the various coal prices used in the sensitivity analysis.

Figure 21: Nsele Sensitivity Analysis



	80%	90%	100%	110%	120%
Coal price	(109)	147	390	630	868
Operating costs	716	554	390	225	55
Capital costs	416	403	390	378	365

Figure 22: Nsele Sensitivity Analysis - Coal Price (ZAR/GJ)



	12.76	14.20	15.63	17.07	18.50
NPV	(65.50)	167.20	390.38	610.52	829.05

Valuation Summary

Venmyn Deloitte has performed a valuation of the Nsele Project using the Market and DCF methods, as appropriate, and the results are summarised in Table 15.

Table 15: Nsele Mineral Asset Valuation Summary, 30 August 2015

MINERAL ASSET	DELTA MINING STAKE	VALUATION METHOD (ZARm)		DELTA MINING ATTRIBUTABLE VALUE RANGE (ZARm)		
		MARKET	DCF	LOWER[1]	UPPER[1]	PREFERRED
Nsele	100%	213.07	391.17	213.07	391.17	302.12

[1] *The wide value range is indicative of the stage of development of the Project and the estimates made in the DCF pricing and opex input parameters.*

Venmyn Deloitte concludes that the **Preferred Value** of the mineral assets attributable to the Nsele Project is **ZAR302.12m** with a lower value of **ZAR213.07m** and an upper value of **ZAR391.17m**.

The **valuation** of exploration assets is, by nature, both subjective and uncertain. The placing of a specific monetary value on historical exploration can be misleading, and the reader is advised to consider the ranges in which each property has been evaluated, and to further consider the technical merits of each Project area and form an opinion regarding its prospectively on the basis of the data presented in this report.

Effective Date

30 August 2015

Final Report Date

20 January 2016

Conclusions

The Nsele Project has a vast coal resource with a total Coal Resource of 158.03Mt of minable coal. The mining study carried out by VBKom in 2015 focused on the preferred mining area for the first phase which falls within the mining block east of the R50 National Road which bisects the Nsele Project. Mining for this initial phase is planned from five pits. A total of 68.19Mt, with 65.69Mt meeting the greater than 14.5% volatile matter specification to produce a 21.5CV product and being processed to produce a total of 37.07Mt of thermal coal is planned for the first phase.

The initial PDC prepared by Sedgman is no longer applicable for the proposed Nsele processing plants due to the change in product. Venmyn Deloitte has put together a conceptual PDC based on similar neighbouring collieries operations which has been used in the financial model. Venmyn Deloitte recommends that the PDC be updated to reflect most recent required product specification.

Venmyn Deloitte performed a valuation of the Nsele Project using the Market and DCF methods, as appropriate.

Venmyn Deloitte concludes that the Preferred Value of the mineral assets attributable to the Nsele Project is **ZAR302.12m** with a lower value of **ZAR213.07m** and an upper value of **ZAR391.17m**.

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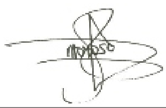

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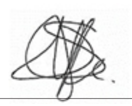

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Statistics South Africa (Statssa)	2015	Consumer Price Index	http://www.statssa.gov.za/?page_id=1861

Appendix 1

Nsele Cashflow

DESCRIPTION	UNITS	TOTAL/ AVERAGE	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
MINE PRODUCTION																						
Total waste	**Mbcm**	**168.04**	**0.00**	**8.37**	**8.09**	**7.05**	**8.38**	**8.85**	**8.39**	**7.80**	**9.00**	**6.22**	**4.32**	**3.96**	**5.99**	**8.76**	**7.99**	**6.53**	**7.34**	**6.83**	**7.65**	**8.22**
Total ROM volume	**Mbcm**	**78.92**	**39.46**	**1.24**	**1.75**	**1.72**	**1.76**	**1.73**	**1.71**	**1.75**	**1.74**	**1.69**	**1.73**	**1.68**	**1.50**	**1.68**	**1.70**	**1.76**	**1.74**	**1.72**	**1.71**	**1.73**
5 Seam - ROM	Mt	**4.71**	0.00	0.48	0.32	0.17	0.24	0.29	0.22	0.17	0.26	0.16	0.06	0.09	0.08	0.26	0.23	0.32	0.26	0.10	0.22	0.15
4 Seam - ROM	Mt	**44.30**	0.00	1.00	1.93	2.36	2.38	2.33	1.97	1.85	1.93	1.84	2.03	1.47	1.67	1.95	1.99	1.81	1.64	1.64	1.67	1.78
2 Seam - ROM	Mt	**19.17**	0.00	0.64	0.75	0.41	0.39	0.39	0.81	0.98	0.77	0.94	0.91	1.39	0.86	0.68	0.70	0.88	1.10	1.27	1.08	1.02
Total ROM tonnage	**Mt**	**68.19**	**0.00**	**2.11**	**3.00**	**2.94**	**3.00**	**3.00**	**3.00**	**3.00**	**2.96**	**2.94**	**3.00**	**2.96**	**2.62**	**2.88**	**2.92**	**3.00**	**3.00**	**3.00**	**2.97**	**2.96**
PLANT PRODUCTION																						
Plant feed	Mt	**65.69**	0.00	2.11	3.00	2.94	3.00	3.00	2.88	3.00	2.79	2.88	2.98	2.92	2.57	2.74	2.73	3.00	3.00	2.46	2.48	2.55
21.5CV eskom coal production	Mt	**37.07**	0.00	1.20	1.60	1.66	1.76	1.76	1.63	1.69	1.56	1.63	1.51	1.74	1.70	1.84	1.77	1.93	1.80	1.42	1.42	1.58
Yield	%	**56%**	0%	57%	53%	57%	59%	59%	57%	56%	56%	56%	51%	60%	66%	67%	65%	64%	60%	58%	58%	62%
REVENUE CALCULATION																						
21.5CV eskom coal - domestic	ZARm	**12 458.64**	0.00	404.83	538.60	558.80	590.06	589.80	547.58	567.13	524.95	547.10	507.35	584.17	571.64	617.18	595.70	647.39	604.79	476.90	478.73	532.01
Total revenue	**ZARm**	**12 458.64**	**0.00**	**404.83**	**538.60**	**558.80**	**590.06**	**589.80**	**547.58**	**567.13**	**524.95**	**547.10**	**507.35**	**584.17**	**571.64**	**617.18**	**595.70**	**647.39**	**604.79**	**476.90**	**478.73**	**532.01**
OPERATING COSTS																						
Mining sub-total	ZARm	**(5 889.24)**	0.00	(251.02)	(263.29)	(253.34)	(281.48)	(295.82)	(280.16)	(253.25)	(297.26)	(221.39)	(168.47)	(168.00)	(192.85)	(303.41)	(276.85)	(242.18)	(269.59)	(245.72)	(284.64)	(308.39)
Processing	ZARm	**(1 622.28)**	0.00	(52.23)	(74.09)	(72.48)	(74.09)	(74.09)	(71.08)	(74.09)	(68.98)	(71.18)	(73.68)	(72.12)	(63.44)	(67.77)	(67.32)	(74.09)	(74.09)	(60.79)	(61.17)	(63.05)
General and admin	ZARm	**(372.73)**	0.00	(14.91)	(14.91)	(14.91)	(14.91)	(14.91)	(14.91)	(14.91)	(14.91)	(14.91)	(14.91)	(14.91)	(14.91)	(14.91)	(14.91)	(14.91)	(14.91)	(14.91)	(14.91)	(14.91)
Head office costs	ZARm	**(377.28)**	0.00	(15.09)	(15.09)	(15.09)	(15.09)	(15.09)	(15.09)	(15.09)	(15.09)	(15.09)	(15.09)	(15.09)	(15.09)	(15.09)	(15.09)	(15.09)	(15.09)	(15.09)	(15.09)	(15.09)
Environmental rehabilitation	ZARm	**(89.76)**	0.00	(4.23)	(6.00)	(5.87)	(6.00)	(6.00)	(6.00)	(6.00)	(5.93)	(5.87)	(6.00)	(5.91)	(5.24)	(5.77)	(5.84)	(6.00)	(3.10)	0.00	0.00	0.00
Social development and responsibility	ZARm	**(87.21)**	0.00	(2.83)	(3.77)	(3.91)	(4.13)	(4.13)	(3.83)	(3.97)	(3.67)	(3.83)	(3.55)	(4.09)	(4.00)	(4.32)	(4.17)	(4.53)	(4.23)	(3.34)	(3.35)	(3.72)
Total opex	**ZARm**	**(8 438.49)**	**0.00**	**(340.31)**	**(377.15)**	**(365.60)**	**(395.69)**	**(410.03)**	**(391.08)**	**(367.31)**	**(405.85)**	**(332.28)**	**(281.70)**	**(280.12)**	**(295.53)**	**(411.26)**	**(384.18)**	**(356.80)**	**(381.00)**	**(339.86)**	**(379.15)**	**(405.16)**
OPERATING PROFIT (LOSS)																						
Total operating profit (loss)	**ZARm**	**4 020.14**	**0.00**	**64.52**	**161.45**	**193.20**	**194.37**	**179.77**	**156.50**	**199.82**	**119.11**	**214.82**	**225.65**	**304.05**	**276.11**	**205.92**	**211.53**	**290.59**	**223.79**	**137.05**	**99.57**	**126.86**
ROYALTY CALCULATION																						
EBITDA for royalty calculation	ZARm	**3 438.29**	(411.93)	57.73	154.65	186.40	187.57	172.97	149.71	193.03	112.31	208.02	218.86	297.25	269.31	199.12	204.73	283.79	217.00	130.25	92.78	120.06
Royalty percentage (adjusted for min/max)	%	**3.57%**	0.00%	2.08%	3.69%	4.21%	4.03%	3.76%	3.54%	4.28%	2.88%	4.72%	5.29%	6.15%	5.73%	4.08%	4.32%	5.37%	4.49%	3.53%	2.65%	3.01%
Total royalty	**ZARm**	**(496.85)**	**0.00**	**(8.44)**	**(19.88)**	**(23.51)**	**(23.79)**	**(22.17)**	**(19.37)**	**(24.28)**	**(15.10)**	**(25.85)**	**(26.85)**	**(35.95)**	**(32.78)**	**(25.21)**	**(25.73)**	**(34.77)**	**(27.13)**	**(16.86)**	**(12.70)**	**(16.00)**
EBITDA																						
EBITDA	**ZARm**	**3 523.29**	**0.00**	**56.09**	**141.57**	**169.69**	**170.58**	**157.60**	**137.13**	**175.54**	**104.00**	**188.97**	**198.80**	**268.10**	**243.33**	**180.71**	**185.80**	**255.82**	**196.66**	**120.19**	**86.87**	**110.86**
CAPEX REQUIREMENTS																						
Total capex	**ZARm**	**(581.86)**	**(411.93)**	**(6.80)**	**(6.80)**	**(6.80)**	**(6.80)**	**(6.80)**	**(6.80)**	**(6.80)**	**(6.80)**	**(6.80)**	**(6.80)**	**(6.80)**	**(6.80)**	**(6.80)**	**(6.80)**	**(6.80)**	**(6.80)**	**(6.80)**	**(6.80)**	**(6.80)**
EBIT																						
Earnings before interest and tax	**ZARm**	**2 941.44**	**(411.93)**	**49.29**	**134.78**	**162.90**	**163.78**	**150.80**	**130.33**	**168.74**	**97.21**	**182.17**	**192.00**	**261.30**	**236.53**	**173.91**	**179.00**	**249.02**	**189.86**	**113.39**	**80.07**	**104.06**
TAX CALCULATION																						
Assessed profit/loss	ZARm	**3 523.29**	0.00	56.09	141.57	169.69	170.58	157.60	137.13	175.54	104.00	188.97	198.80	268.10	243.33	180.71	185.80	255.82	196.66	120.19	86.87	110.86
Opening unredeemed capital	ZARm	**(1 736.50)**	(411.93)	(418.73)	(369.44)	(234.67)	(71.77)	(6.80)	(6.80)	(6.80)	(6.80)	(6.80)	(6.80)	(6.80)	(6.80)	(6.80)	(6.80)	(6.80)	(6.80)	(6.80)	(6.80)	(6.80)
Taxable amount	ZARm	**2 960.71**	0.00	0.00	0.00	0.00	98.81	150.80	130.33	168.74	97.21	182.17	192.00	261.30	236.53	173.91	179.00	249.02	189.86	113.39	80.07	104.06
Closing unredeemed capital	ZARm	**(1 173.91)**	(411.93)	(362.65)	(227.87)	(64.97)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tax payable	**ZARm**	**(829.00)**	**0.00**	**0.00**	**0.00**	**0.00**	**(27.67)**	**(42.22)**	**(36.49)**	**(47.25)**	**(27.22)**	**(51.01)**	**(53.76)**	**(73.16)**	**(66.23)**	**(48.70)**	**(50.12)**	**(69.73)**	**(53.16)**	**(31.75)**	**(22.42)**	**(29.14)**
PROJECT UNDISCOUNTED CASHFLOW																						
Income after tax	ZARm	**2 112.44**	(411.93)	49.29	134.78	162.90	136.11	108.58	93.84	121.50	69.99	131.17	138.24	188.14	170.30	125.22	128.88	179.30	136.70	81.64	57.65	74.92
Working capital changes	ZARm	**0.00**	0.00	(38.58)	(18.96)	(4.27)	(2.67)	1.22	5.38	(5.17)	10.10	(9.69)	2.38	(12.76)	3.33	2.03	1.30	(10.75)	8.99	17.64	2.93	(6.62)
Project undiscounted cashflow	**ZARm**	**2 112.44**	**(411.93)**	**10.71**	**115.82**	**158.63**	**133.45**	**109.80**	**99.22**	**116.33**	**80.09**	**121.48**	**140.62**	**175.38**	**173.63**	**127.24**	**130.19**	**168.55**	**145.69**	**99.28**	**60.58**	**68.30**
Project discounted cashflow	**ZARm**	**391.17**	**(388.61)**	**8.99**	**86.53**	**105.47**	**78.97**	**57.82**	**46.50**	**48.52**	**29.73**	**40.13**	**41.34**	**45.88**	**40.42**	**26.36**	**24.01**	**27.66**	**21.28**	**12.90**	**7.01**	**7.03**