



ASX Code: IKW

31st January 2013

Company Announcements Office
Australian Securities Exchange
Level 4 Exchange Centre
20 Bridge Street
Sydney NSW 2000

QUARTERLY ACTIVITIES REPORT – 3 MONTHS ENDED 31 DECEMBER 2012

Ikwezi Mining Limited (ASX: IKW, Ikwezi Mining or Company).

Thermal coal markets and project status update

Although global inventory levels remain high, thermal coal markets have started to stabilise. The increase in shale gas production in the United States has increased US coal exports, negatively impacting global prices as markets re-adjust. Cut-backs in coal production in the US, Indonesia and China are assisting the stabilisation of prices. South African producers have not been as affected, with the lower export coal prices being offset by the depreciation of the South African Rand (reducing production costs in US dollar terms) with a strong domestic coal market trading at a premium to export prices.

The Company is confident of its fundamentals in the current market and is on track with its target of bringing the Ntendeka Colliery into production in Q2 2013. The medium-term to longer-term coal price outlook and market fundamentals show a positive trend as indicated by the Richards Bay API\$ index as the thermal coal market is brought back into balance.

The signing of an off-take agreement with Vitol (announced to ASX on 23 January 2013) represents an important step forward for the Company. This agreement provides for Ikwezi to sell 3.96Mt of coal to Vitol over a three year period subject to the finalisation of a finance facility to bring the Ntendeka Colliery into production.

The Company remains focused on finalising its remaining licence approvals and its proposed approximately ZAR200 million bank loan facility as previously announced. The mine scheduling, the production model / product mix, including operational structure, use of contractors and staff structures has been rationalised to assist in further reducing operational costs to maximise profitability and remaining competitive in the current lower coal price environment.

Ikwezi Mining Limited (incorporated in Bermuda with registered company number 45349)
ARBN 151 258 221
Clarendon House
2 Church Street
Hamilton
HMCX Bermuda

Management has also implemented actions to reduce non-essential spending given the longer than expected time frame to finalise the various licence approvals and bring the Ntendeka Colliery into production.

The remaining key milestones to bring the Ntendeka Colliery into production in Q2 2013 are the issue of the Integrated Water Use Licence (IWUL) and the approval of the finance facility. It is expected to take between two and three months from the time the decision is made to commence mining to first export coal. This includes the completion of the remaining construction together with mining site establishment and completion of the initial box cut. These activities are planned to run in parallel.

Finance

As at 31st December 2012 the Company had A\$4.454m cash on hand. Construction of the coal wash plant; the run-of-mine ramp; stock pile area; electrical infrastructure; and other related infrastructure is complete and the wash plant has been wet commissioned. The remaining construction activities required to bring the plant into operation relate to the construction of the water supply system, which includes the pipeline from the old Ngagane Colliery workings to the wash plant, together with the completion of the water storage and pollution control dams. These construction activities can only commence on receipt of the IWUL and have a scheduled construction time frame of approximately two to three months.

On 13th December 2012, the land on which Ntendeka Colliery's siding at Ngagane will be located was successfully transferred to Ikwezi Mining (Pty) Ltd. An approved Environmental Impact Assessment on the proposed siding has been received from the Department of Water and Environmental Affairs. The siding design, which is Richards Bay Coal Terminal (RBCT) compliant, has been approved by Transnet Freight Rail with construction to commence once the relevant licencing and funding facilities are in place. In the interim, other sidings are available in the area from which to export coal should this be required.

Discussions continue with the banks to finalise the approximately ZAR200 million facility to bring the Ntendeka Colliery into production as previously announced. These are well progressed with management expecting these to be finalised shortly now that the off-take agreement has been entered into.

Water Use Licence - IWUL

Discussions in respect of the Company's application for the IWUL for the Ntendeka Colliery continue with the Department of Water and Environmental Affairs.

As at 20 March 2012, it was reported that 53 mines were operating in South Africa without Water Use Licences (June 2010 : 125 mines were operating without Water Use Licences).¹ The Department has been focussing on issuing licences under their "Project Letsema" to these mines (i.e. mines in operation or applications received pre-2010) which has delayed the processing of licences for new mines.

1: <http://www.da.org.za/newsroom.htm?action=view-news-item&id=10467> – Response to Democratic Alliance question in the South African Parliament

We are in continuous contact with the Department and whilst we are advised that all internal departmental procedures are complete and that the issue of the licence is imminent, we are as yet to receive it. The granting of the IWUL is a requirement for mining to commence and the water supply system to the wash plant to be constructed.

Reserves and resources and exploration activities

An amount of A\$248k was paid in respect of exploration and evaluation during the quarter ended 31 December 2012 with 9 holes drilled totalling 1,882m. Drilling has been put on hold to minimise expenditure given that the first approx. 7 years of production has been drilled to a measured status and scheduled in terms of mine planning based on current market conditions as part of the exercise to optimise the production cost structure and revenue of the operation.

Port Allocation

As previously announced, Ikwezi has been offered port capacity in its own name at Durban and Richards Bay. The various contractual and legal obligations to formalise this additional port allocation are expected to be completed in line with the timetable for proposed commencement of production now that the off-take agreement with Vitol is in place.

Prospecting Rights

The Company announced the acquisition of coal prospecting rights covering some 5,714ha in the Waterberg Coalfield in Limpopo province, South Africa on 30 September 2011. The acquisition agreement was subject to a number of conditions precedent including a Section 11 approval from the Department of Mineral Resources (DMR). Despite the time frames for the vendors to meet the various conditions precedent being extended, the Company has yet to receive a S11 approval for the acquisition of the asset. As a result of this, the acquisition agreement has lapsed. The Company is in discussions with the DMR to ascertain the nature of the non-processing/non-approval of the Section 11 application and upon receipt of a response, will determine how to proceed in either resuscitating the agreement or looking for other opportunities in the Waterberg Coalfield.

Further to the Company's announcement on 25 October 2012, the Department of Mineral Resources (DMR) has executed its coal prospecting right covering some 3,998ha in the Ermelo Coalfield in Mpumalanga province, South Africa. The Company has a 60% interest in the Assegai project with the balance held by its BEE partners. The addition of the Assegai project adds substantially to the Company's exploration assets.

Corporate

As announced to ASX on 15 January 2013, 5,000,000 options over ordinary shares in the Company expired unexercised on 31 December 2012.

Summary

"The signing of the off-take agreement with Vitol represents a major step forward for the Company and indicates confidence in its ability to bring the Ntendeka Colliery into production over the next few months," said David Pile, MD of Ikwezi Mining.

ABOUT IKWEZI

Ikwezi Mining Ltd is focused on the exploration and development of coal projects in South Africa. Ikwezi has a 70% stake in the Ntendeka Colliery and a 60% interest in the Dundee, Acorn and Assegai projects. The Ntendeka Colliery is located in the KwaZulu-Natal coal fields and is in close proximity to rail and port infrastructure.

For further information contact:

David Pile

Managing Director

Tel: +27 11 994 8900

Email: david@ikwezi.co.za

Disclaimer regarding future matters and forward-looking statements

This announcement contains reference to certain intentions, expectations, estimates, future plans, strategy and prospects of the Company. Those intentions, expectations, estimates, future plans, strategy and prospects may or may not be achieved. They are based on certain assumptions, which may not be met or on which views may differ and may be affected by known and unknown risks. The performance and operations of the Company may be influenced by a number of factors, many of which are outside the control of the Company. No representation or warranty, express or implied, is made by the Company or any of its directors, officers, employees, advisers or agents that any intentions, expectations or plans will be achieved either totally or partially or that any particular rate of return will be achieved and each of those persons expressly disclaims all liability with respect to such forward-looking information. Given the risks and uncertainties that may cause the Company's actual future results, performance or achievements to be materially different from those expected, planned or intended, recipients should not place undue reliance on these intentions, expectations, future plans, strategy and prospects.

Appendix – Tenement information

Details of the Company's and its controlled entities interests in tenements as at 31 December 2012 are outlined below:

| Project name | Type | Reference | Number of hectares and location | Ownership | Licensee |
|--|-------------------|---|--|-----------|------------------------------|
| Ntendeka Colliery (formerly Newcastle Project Phase 1) | Mining right | KZN 30/5/1/2/297 MR MPTRO: 77/2012 (MR) | 12,182ha, Northern KwaZulu Natal, South Africa | 70% | Ikwezi Mining (Pty) Ltd |
| Dundee Project (formerly Newcastle Phase 2) | Prospecting right | KZN 30/5/1/1/2/387 PR MPTRO: 163/2011 (PR) | 4,665ha, Northern KwaZulu Natal, South Africa | 60% | Bokamaso Resources (Pty) Ltd |
| Acorn Project | Prospecting right | GP 30/5/1/1/2/550 PR MPTRO: 115/2011 (PR) | 20,758ha, Gauteng Province, South Africa | 60% | Bokamaso Resources (Pty) Ltd |
| Assegai Project | Prospecting right | MP30/5/1/1/2/4397PR | 3,998ha, Mpumalanga Province, South Africa | 60% | Bokamaso Resources (Pty) Ltd |

Note:

1. As announced to ASX on 22 January 2012, the Company had previously announced the acquisition of 70% interests in prospecting rights for the Waterberg Project covering 5,714ha in the Waterberg Coalfield in Limpopo province, South Africa subject to a number of conditions precedent including Section 11 approval from the Department of Mineral Resources (DMR). As announced to ASX on 22 January 2013, despite the timeframes for the vendors to meet the various conditions precedent being extended, the Company is yet to receive the Section 11 approval for its acquisition of these prospecting rights. As a result the acquisition of these prospecting rights has lapsed and those interests are not included in the above table. The Company is in discussions with the DMR to ascertain the nature of the non-processing / non-approval of the Section 11 application and upon receipt of a response will determine how to proceed in either resuscitating the agreement or looking for other opportunities in the Waterberg Coalfield.

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