



CIC ENERGY CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended February 28, 2009

Dated: April 14, 2009

TABLE OF CONTENTS

1. Introduction.....	2
2. Overall Performance.....	2
3. Results of Operations.....	3
4. Summary of Quarterly Results .....	9
5. Liquidity .....	10
6. Capital Resources .....	11
7. Off-Balance Sheet Arrangements.....	12
8. Transactions with Related Parties .....	12
9. Proposed Transactions.....	13
10. Critical Accounting Estimates .....	13
11. Changes in Accounting Policy .....	14
12. Financial Instruments and Other Instruments .....	15
13. Disclosure of Outstanding Share Data .....	16
14. Internal Control Over Financial Reporting.....	16
15. Risks.....	16
16. Outlook .....	20
17. Cautionary Statement Regarding Forward-Looking Statements.....	21

## 1. Introduction

The common shares of CIC Energy Corp. ("**CIC Energy**" or the "**Company**") commenced trading on the Toronto Stock Exchange ("**TSX**") on March 23, 2006 under the symbol ELC. On June 5, 2006 the common shares of CIC Energy were listed on the Botswana Stock Exchange ("**BSE**") under the name CIC ENERGY.

This Management's Discussion and Analysis ("**MD&A**") has been prepared for the three months ended February 28, 2009.

Additional information relating to CIC Energy, including the Company's Annual Information Form for the year ended November 30, 2008, has been filed on System for Electronic Document Analysis and Retrieval ("**SEDAR**") and may be accessed at [www.sedar.com](http://www.sedar.com).

The discussion and analysis of the financial status of CIC Energy for the three months ended February 28, 2009 should be read in conjunction with the reviewed consolidated financial statements and related notes for CIC Energy and its wholly-owned subsidiaries for the three months ended February 28, 2009. Historical results, including trends which might appear, should not be taken as indicative of future results.

All financial information reported herein for the three months ended February 28, 2009 has not been audited. Unless otherwise indicated all funds in this MD&A are in Canadian dollars.

## 2. Overall Performance

CIC Energy is a single business company focused on the development and operation of the "**Mmamabula Energy Complex**". CIC Energy remains a development stage enterprise and planned operations have not yet commenced and operating revenue has not yet been generated. The Mmamabula Energy Complex is planned to consist of a mine-mouth coal fired thermal power station project (the "**Mmamabula Energy Project**" or "**MEP**"), a coal gasification and hydrocarbon production project (the "**Coal-to-Hydrocarbons Project**" or "**CTH Project**") and an export coal project (the "**Export Coal Project**"), each of which is described in greater detail below. The Mmamabula Energy Project is the most advanced project of the Mmamabula Energy Complex. These projects are planned to be developed on the basis of two non-contiguous greenfield coal properties located in the Mmamabula coalfield in south-eastern Botswana.

The net profit for the three months ended February 28, 2009 was \$0.157 million compared to a net loss of \$1.5 million for the same period in the prior year. The increase was primarily due to the strong appreciation of the Canadian dollar against the operational currencies represented by Botswana Pula and South African Rand.

As operations have not yet commenced and operating revenue is not being generated, the recent sharp reductions in commodity prices have not significantly impacted the Company's financial performance.

The development of the Mmamabula Energy Project will require the raising of significant debt financing. As a result of reduced lending activity by international commercial banks, the Company has adjusted the financing strategy for the Mmamabula Energy Project to place a greater emphasis on development finance institutions, who historically have been significant financiers of projects such as the MEP and are less affected by the type of liquidity constraints being experienced by many international commercial banks.

The Company believes that it is adequately capitalised to enable it to continue to pursue its project development activities, being primarily the development of the Mmamabula Energy Project.

### 3. Results of Operations

#### **Review of Operations**

(in thousands of \$)

	Three months ended February 28, 2009 (Reviewed)	Three months ended February 29, 2008 (Reviewed)	Year ended November 30, 2008 (audited)
Interest received	578	1,025	2,645
Profit (loss) on foreign exchange	2,237	146	493
Total income	2,815	1,171	3,284
Office and general expenses	1,458	1,313	4,425
Personnel expenses	583	614	1,940
Stock based compensation	188	311	1,726
Impairment	-	-	1,780
Other expenses	429	412	1,487
Income taxes	-	-	225
Net profit / (loss)	157	(1,479)	(8,299)

The profit for the three months ended February 28, 2009 was \$0.157 million compared to a loss of \$1.5 million for the same period in the previous year. The was due to the substantially higher gain in foreign exchange for current period as a result of the strengthening of the Canadian dollar to Botswana Pula and South African Rand, the functional currencies of the operating companies.

#### **Exploration Properties**

The Company indirectly holds three prospecting licences in the greater Mmamabula coalfield in south-eastern Botswana. The Mmamabula coalfield forms the western extension of South Africa's Waterberg coalfield. No operating mines have been established to date within the Mmamabula coalfield. However, the Waterberg coalfield is host to one of South Africa's largest coal mines, the 19 Mt per annum Grootegeluk Colliery, located approximately 80 kilometres ("km") east of Mmamabula and owned by Exxaro Resources Limited.

The three prospecting licences are Coal Prospecting Licence No. 11/2004 and 11A/2004 (together, "**Mmamabula East**") and Coal Prospecting Licence No. 75/2002 ("**Mmamabula South**", and together with Mmamabula East, the "**MEC Coalfield**"). The MEC Coalfield is located 120 km to the northeast of the capital city of Gaborone. The property lies between Botswana's main paved highway, which runs from Gaborone to Francistown, and the border with South Africa. Secondary unpaved roads facilitate access to the MEC Coalfield. CIC Energy has substantially completed exploration of the MEC Coalfield and is well advanced in the geological analysis of the MEC Coalfield, with the intention of defining coal resources which will be suitable for each of the Mmamabula Energy Project, the CTH Project and the Export Coal Project.

#### *Mmamabula East*

The original Mmamabula East coal prospecting licence PL11/2004 (the "**Original PL11/2004**") was granted on April 1, 2004 with an original validity of three years. In December 2006 an application for a mining licence was submitted by Meepong Resources (Proprietary) Limited ("**Meepong Resources**"), an indirectly wholly owned subsidiary of the Company, to the Government of Botswana. In December 2008 Meepong Resources submitted to the Government of Botswana (i) an application for a mining licence for coal resources identified for use for the Mmamabula Energy Project, and (ii) an application for a renewal of the Original PL11/2004 (in respect of the balance of the coal resources) for a period of two years. As of February 28, 2009, the term of the Original PL11/2004 had been extended to March 30, 2009.

On March 27, 2009, the Government of Botswana notified the Company that the Government had approved the split of Original PL11/2004 into two separate prospecting licences; currently designated: (i) PL11A/2004, which includes the area containing the coal resources identified for use for the Mmamabula Energy Project; and (ii) PL11/2004, which contains the balance of the area covered by Original PL11/2004, ("**Revised PL11/2004**"). The Government granted an extension of PL11A/2004 for a period of six months to September 30, 2009. The Government also approved the transfer of Revised PL11/2004 from Meepong Resources to CIC Resources (Proprietary) Limited ("**CIC Resources**"), an indirectly wholly owned Botswana subsidiary of the Company, and advised the Company that Government would issue a renewal of Revised PL11/2004 for a period of 2 years in accordance with the Botswana Mines and Minerals Act. As of the date of this MD&A, the issuance of the renewal of Revised PL11/2004 is in process. In accordance with the Mines and Minerals Act, the renewal of Revised PL11/2004 will require the relinquishment of 50% of the surface area covered by such licence. In accordance with the Mines and Minerals Act, the area that is to be relinquished was selected by the Company on the basis that it is generally not considered to have exploitable coal or where such coal is not likely to be exploitable on a commercially attractive basis (e.g. because it is of poor quality or located in proximity to a fault). Please see *Mineral Resource Estimates* below for further details.

It is intended that Meepong Resources will continue to develop PL11A/2004 for the purposes of the Mmamabula Energy Project, and that CIC Resources will develop PL11/2004 for the other projects contemplated for the Mmamabula Energy Complex.

#### *Mmamabula South*

The original Mmamabula South renewal coal prospecting licence PL75/2002 ("**Original PL75/2002**") was granted in July 2005 and was valid for a period of two years. In December 2006, an application for a mining licence was submitted by Meepong Resources to the Government of Botswana. In December 2008 Meepong Resources submitted to the Government of Botswana an application for a renewal of Original PL75/2002 for a period of two years. As of February 28, 2009, the term of Original PL75/2002 had been extended to March 30, 2009.

On March 27, 2009, the Government of Botswana notified the Company that the Government had approved the transfer of Original PL75/2002 from Meepong Resources to CIC Resources, and advised the Company that Government would issue a renewal of Original PL75/2002 for a period of 2 years in accordance with the Botswana Mines and Minerals Act. As of the date of this MD&A, the issuance of the renewal of Original PL75/2002 is in process. In accordance with the Mines and Minerals Act, the renewal of Original PL75/2002 will require the relinquishment of 50% of the surface area covered by such licence. In accordance with the Mines and Minerals Act, the area that is to be relinquished was selected by the Company on the basis that it is generally not considered to have exploitable coal or where such coal is not likely to be exploitable on a commercially attractive basis (e.g. because it is of poor quality or located in proximity to a fault). Please see *Mineral Resource Estimates* below for further details.

### ***Mineral Resource Estimates***

CIC Energy announced updated NI 43-101 mineral resource estimates for the MEC Coalfield in June 2007. A technical report on the MEC Coalfield entitled "CIC Energy Corp.: Mmamabula Energy Complex, South-eastern Botswana, Project No. J912, National Instrument 43-101 Technical Report" dated June 1, 2007 (the "**Fifth Technical Report**"), containing information about the mineral resource estimates for the MEC Coalfield and other relevant information, was filed on SEDAR and may be accessed via the SEDAR website at [www.sedar.com](http://www.sedar.com).

CIC Energy announced updated NI 43-101 mineral resource estimates for the MEC Coalfield in September 2008. A technical report on the MEC Coalfield entitled "CIC Energy Corp.: Mmamabula Energy Complex, South-eastern Botswana, Project No. J912, National Instrument 43-101 Sixth Technical Report" dated September 26, 2008 (the "**Sixth Technical Report**"), containing information about the mineral resource estimates for the MEC Coalfield and other relevant information, was filed on SEDAR and may be accessed via the SEDAR website at [www.sedar.com](http://www.sedar.com).

Following the receipt of the renewal of Revised PL11/2004 and Original PL75/2002 from the Government of Botswana, the Company will update (and disclose by way of press release) the mineral resource estimates set out in the Fifth Technical Report and the Sixth Technical Report, as applicable, to reflect the resources contained in the areas covered by such prospecting licences (as renewed) and PLA11A/2004 (i.e. after giving effect to the relinquishment described in *Exploration Properties* above). The Company currently anticipates that the relinquishment will result in a reduction of the estimated total measured and indicated mineral resources contained in Mmamabula East by approximately 10% (and a similar decrease in the estimated inferred mineral resources contained in Mmamabula East).

### ***Coal Products***

As the drilling program has been substantially completed, the Company has conducted geological modeling and analysis in order to evaluate the extent to which the measured and indicated resources can be mined and beneficiated in order to support the Company's project development activities at the Mmamabula Energy Complex. The base case mining methods proposed for the mineral resources is a combination of both strip mining and conventional underground bord and pillar mining using continuous miners, with the resulting run-of-mine coal production to be beneficiated through either a single or multi-stage washing process, depending on the characteristics of the coal produced.

Based on the analysis that has been performed, the Company is confident that the coal resource will be capable of yielding coal products in the quantities and qualities required to support the Mmamabula Energy Project, the CTH Project and the Export Coal Project as currently being developed (in the case of the Mmamabula Energy Project) and evaluated (in the case of the CTH Project and the Export Coal Project).

The ability of the Company to produce such coal products is subject to various risks and uncertainties. Please see *Section 15: Risks* and *Section 17: Cautionary Statement Regarding Forward-Looking Statements* for further details.

### ***Mmamabula Energy Project***

Based on projected upcoming power deficits, the southern African regional utilities, including Eskom Holdings Limited ("**Eskom**") and Botswana Power Corporation ("**BPC**"), are promoting new projects and urgently require additional power to meet their requirements. The Mmamabula Energy Project is intended to address part of the projected power shortfall. The MEP is expected to commence providing electricity to the southern African power grid in 2013 subject to, among other things, the successful conclusion of power purchase agreements ("**PPAs**") and the raising of non-recourse project debt financing.

A key aspect of the successful development of the MEP is the conclusion of the PPAs with Eskom and BPC for the power that is expected to be generated by the Mmamabula Energy Project, with Eskom being expected to purchase the majority of the power. The Company's discussions are ongoing with Eskom and BPC regarding PPAs for a term of approximately 30 years and will be concluded prior to financial close of the MEP (being the point when all key project contracts have been concluded and become unconditional and all debt and equity committed, and all conditions precedent to the first drawdown under the financing agreements have been satisfied, "**Financial Close**").

The Company announced on December 1, 2008 that it had completed the final mine plan for the coal mine that will supply the MEP power station, to be developed to the east of the power station in an area identified as the Serorome block in the Sixth Technical Report. The planned capacity of the coal mine will be approximately 4.5 million metric sales tonnes per annum. Meepong Resources submitted a mining licence application to the Government of Botswana for this mine in December 2008. In addition, the Company is conducting discussions with potential contractors and equipment suppliers for the development of this mine, including coal beneficiation and handling equipment.

In a news release of March 23, 2009, the Company announced that an Engineering, Procurement and Construction ("**EPC**") contract has been signed with Shanghai Electric Group Co., Ltd. ("**SEC**") for the first power station to be built at the Mmamabula coalfield. The planned capacity of the power station will be approximately 1,320 megawatts ("**MW**") (gross) or 1,200 MW (net) comprised of two supercritical 660 MW units (gross).

The Company also announced on March 23, 2009 the appointment of ABSA Capital, a division of ABSA Bank Limited ("**ABSA**"), and The Standard Bank of Southern Africa Limited ("**Standard Bank**"), two leading South African banks, as mandated lead arrangers for the Mmamabula Energy Project. ABSA and Standard Bank will lead the arranging of the non-Chinese commercial debt and any portion of the debt financing that benefits from support from the Export Credit Insurance Corporation of South Africa (Pty) Ltd.

Certain additional infrastructure works will be required to be developed in order to support and augment the work that will be done by the power station EPC contractor and the mine contractors. CIC Energy is currently conducting a competitive tender process for the performance of these infrastructure works, which is in an advanced stage.

The Company anticipates that it will incur expenditure for provisioning of construction services and utilities, and general project development, prior to Financial Close. The Company anticipates funding such expenditure from existing working capital.

Environmental Impact Assessment ("**EIA**") studies for the previously proposed 7.5 to 9.0 million sales tonnes per annum coal mine, along with the 2,100 to 2,460 MW power station and certain related infrastructure, as well as for the planned transmission lines, were previously approved by the Government of Botswana. Approval of the EIA study related to the transport corridor and the revised transmission routing (necessary in order to coordinate with the routing approved by the Government of the Republic of South Africa) has also been received.

CIC Energy has submitted an amended EIA study to the Government of Botswana with respect to the revised mining plan to be employed by Meepong Resources resulting from the reduction in size of the MEP and relocation of the intended mining area. As of the date of this MD&A, this EIA study was under review by the relevant authorities of the Government of Botswana. CIC Energy also intends to submit an EIA study with respect to an upgrade of the Parr's Halt / Stockpoort border crossing between South Africa and Botswana, and the road from such border crossing to the MEP site, for transportation of certain materials to the MEP site. Approval of these amended studies is a prerequisite for the granting of a mining licence, an independent power producer licence, and surface rights required for the MEP, as well as the acquisition of transmission line and other necessary servitudes in Botswana. Environmental, Social and Health Impact Assessment studies prepared in accordance with standards of the International Finance Corporation, the private sector arm of the World Bank Group, and related internationally-required compliance standards are ongoing.

In accordance with the agreement currently in place between CIC Energy and International Power plc ("IPR"), CIC Energy and IPR are continuing to work together to develop one or more power stations in Botswana utilizing coal from the MEC Coalfield. The agreement contemplates that the terms of the relationship going forward will be set out in further agreements to be negotiated. Negotiations are currently ongoing with respect to the possible participation of IPR in the Mmamabula Energy Project.

The Company believes that the demand for power from the Mmamabula Energy Project will remain strong given the shortfall in generating capacity in the region. As a result of reduced lending activity by international commercial banks, the Company has adjusted the financing strategy for the Mmamabula Energy Project to place a greater emphasis on development finance institutions, who historically have been significant financiers of projects such as the MEP and are less affected by the liquidity constraints being experienced by many international commercial banks.

The ability of the Company to complete the Mmamabula Energy Project is subject to various risks and uncertainties. Please see *Section 15: Risks* and *Section 17: Cautionary Statement Regarding Forward-Looking Statements* for further details.

### **CTH Project**

During the third quarter of 2008, CIC Energy completed several technical feasibility studies on the CTH Project. The primary technical feasibility study was prepared by Jacobs Engineering to develop and evaluate viable CTH Project alternatives as well as provide technical and cost estimates. The results of this feasibility study were positive, as announced in the Company's news release of August 5, 2008. The Jacobs study concluded that the coal from the MEC Coalfield was entirely suitable for the production of synthesis gas ("syngas") using either the Shell or the Siemens gasification technologies that were evaluated.

The results from two additional technical studies that were undertaken, as previously announced, were incorporated into the Jacobs feasibility study. These included a technical study by Toyo Engineering of Japan related to the manufacturing of a specific fuel end-product (dimethyl ether) from the syngas. The third technical study was a pre-feasibility study conducted by a partnership between Lategan & Bouer and VGI Consulting Inc. (both from South Africa) to evaluate a multi-product pipeline from the Mmamabula Energy Complex site to the Gauteng area in South Africa. The outcomes of both of these studies were positive and additional work is being considered.

CIC Energy's initial market study for the CTH Project has also been completed. This study examined the potential market opportunities for the different downstream products that could be produced from syngas that results from gasifying coal. Potential downstream products include chemicals and fuels. This initial market study concluded that there are several opportunities to sell potential downstream products to the Southern African Development Community and international markets.

A second phase detailed value-chain study, which includes a more comprehensive market study, has recently been completed by Shell Global Solutions International and is being assessed by the Company. In making such assessment, the Company shall consider both current market conditions and expectations of long-term market conditions for the products anticipated to be produced from the CTH Project. Given the current volatility in the markets for petroleum products, the Company is also exploring opportunities to market syngas to large scale users in the region under long term supply agreements. The Company does not anticipate significant further expenditure on the CTH Project until the economic assessment has been completed.

The Company also has entered into an option agreement with Shell Research Limited for the grant of a licence over coal gasification intellectual property.

The ability of the Company to complete the CTH Project is subject to various risks and uncertainties. Please see *Section 15: Risks* and *Section 17: Cautionary Statement Regarding Forward-Looking Statements* for further details.

### **Export Coal Project**

A mine, rail and port pre-feasibility study for the Export Coal Project to investigate the exporting of seaborne traded A grade thermal coal from the Mmamabula Energy Complex site to a port on the west coast of southern Africa has been completed and is currently under evaluation, particularly in light of current economic conditions and uncertainties in energy markets globally. An approximately 1,500 kilometre rail line would have to be constructed from the Mmamabula Energy Complex site in a westerly direction through Botswana and Namibia. At the Namibian coast, a coal terminal and loading facility is envisaged to be built to be able to load ocean going vessels.

In the event that the outcome of the pre-feasibility study is positive, the Company will consider proceeding with a bankable feasibility study for the Export Coal Project. In evaluating the pre-feasibility study, the Company shall consider both current market conditions and expectations of long-term market conditions for the products anticipated to be produced from the Export Coal Project. The Company is in discussions with both the potential host governments on development alternatives for the Export Coal Project, and with other parties in the region that are interested in participating as joint venture partners in the preparation of such a bankable feasibility study and ultimately as users of the rail and port facilities, should a decision be made to proceed with the development thereof.

The Company does not anticipate significant further expenditure on the Export Coal Project until the evaluation of the pre-feasibility study has been completed.

The ability of the Company to complete the Export Coal Project is subject to various risks and uncertainties. Please see *Section 15: Risks* and *Section 17: Cautionary Statement Regarding Forward-Looking Statements* for further details.

### **Water supply**

CIC Energy has assessed the water demands of the Mmamabula Energy Complex and the potential sources of water. As part of CIC Energy's assessment, a groundwater exploration program consisting of geophysical surveys followed by a drilling and testing of 46 exploration boreholes was undertaken by Wellfield Consulting Services over an area of some 1,500 km<sup>2</sup>. The area lies to the southwest of Kudumatse and north of the Mmamabula East licence area. The exploration program identified a significant groundwater resource in the Ntane Sandstone aquifer of the Karoo system.

The identified resource has been further quantified by numerical modeling that has simulated the development and operation of a production wellfield within 20 kilometres of the Mmamabula Energy Complex site. The results of this modeling study, corroborated by independent review by Government of Botswana water authorities and international peer reviewers, indicated that there are sufficient ground water resources available to supply the Mmamabula Energy Complex with 12 million cubic meters of water per year for a period of 40 years.

On September 10, 2007, Meepong Water (Proprietary) Limited, a subsidiary of the Company, was granted groundwater abstraction rights from the Water Apportionment Board in Botswana in support of the water requirements for the Mmamabula Energy Project. Approval of the EIA related to groundwater wellfields for the MEP was received from the Department of Environmental Affairs of the Government of Botswana on September 5, 2008.

The Company intends to apply for additional groundwater abstraction rights in the future once water requirements have been determined upon completion of design specifications for the relevant projects, including mine development. The wellfield water may later be complemented by water sourced from the Phase 2 North South Water Carrier that is currently being developed by the Government of Botswana.

#### 4. Summary of Quarterly Results

##### Net Income Highlights (in thousands of \$)

Quarters ended	Total income	Total expenses	Net income (loss)	Basic and diluted loss per share
February 28, 2009*	2,815	2,658	157	0.01
November 30, 2008**	(1,043)	2,780	(3,868)	(0.07)
August 31, 2008*	2,345	2,597	(342)	(0.006)
May 31, 2008*	810	3,330	(2,610)	(0.05)
February 29, 2008*	1,171	2,650	(1,479)	(0.03)
November 30, 2007**	680	7,206	(6,536)	(0.13)
August 31, 2007*	997	3,160	(2,188)	(0.04)
May 31, 2007*	210	2,901	(2,737)	(0.06)

\* Reviewed

\*\* Audited

Quarterly trends in total income reflect interest received on cash balances and foreign exchange profits and losses resulting from changes in the South African Rand / Canadian Dollar and Botswana Pula / Canadian Dollar exchange rates as funds are transferred from the Company's bank account to South Africa and Botswana to pay corporate and development expenses. Total expenses have generally increased each quarter as the Company has grown in size with the further development of the Mmamabula Energy Complex, in particular the Mmamabula Energy Project.

All non-capitalised expenditure levels in the current quarter were on par with those in the first quarter of the prior year.

##### Cash Flow Highlights (in thousands of \$)

	Three months ended February 28, 2009 (reviewed)	Three months ended February 29, 2008 (reviewed)	Year ended November 30, 2008 (audited)
Operating activities	(2,122)	(2,019)	(2,309)
Investing activities	(6,680)	(5,776)	(31,650)
Financing activities	(379)	-	(2,210)
Beginning cash balance	85,820	121,989	121,989
Net cash flow for the period	(9,181)	(7,795)	(36,169)
Ending cash balance	76,639	114,194	85,820

##### **Operating Activities**

For the three months ended February 28, 2009, operating activities utilized \$2 million cash compared with \$2 million in the same period in 2008. Operational foreign exchange gains in the current period compensated for the loss on interest income, when compared to the first quarter of 2008.

### ***Investing Activities***

Investing activities for the three months ended February 28, 2009 utilized \$6.7 million cash compared with \$5.8 million in the same period in 2008.

### ***Financing Activities***

Financing activities resulted in the net outflow of \$0.3 million in cash for the three months ended February 28, 2009, with such cash being used to buy back and cancel shares in the Company.

## **5. Liquidity**

Historically the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements to sophisticated investors and institutions. The Company's access to such funding is always uncertain and there can be no assurance of continued access to equity funding if required in order for the Company to meet its planned business objectives. This is particularly true in the current global credit markets and financial markets which are currently characterised by significant reductions in liquidity.

As of February 28, 2009, the Company had cash and cash equivalents of approximately \$76.6 million, which the Company believes is sufficient to fund the development of the Mmamabula Energy Project to Financial Close, currently anticipated to occur in the third calendar quarter of 2009, and to fund the Company's ongoing personnel, office, lease and general expenses.

As the drilling and exploration activities at the MEC Coalfield are substantially complete, the costs to be incurred by the Company for the development of the Mmamabula Energy Project are primarily for financial consultants, legal consultants and engineering consultants who are assisting the Company in the development of the Mmamabula Energy Project. With the exception of certain success based payments related to project development activities that the Company will be obligated to pay upon the occurrence of the relevant milestones (in particular agreement of term sheets for the debt financing, execution of the financing documents, and the achievement of Financial Close), these consulting services are discretionary in nature in that the Company has certain rights to suspend or terminate the performance of the consulting services should the Company elect to do so. In the event that Financial Close were to be significantly delayed and the Company elected not to suspend or terminate the performance of some or all of such consulting services, the Company may be required to raise additional funds in order to continue to fund the development of the Mmamabula Energy Project and to fund the Company's ongoing personnel, office, lease and general expenses.

The Company's cash and cash equivalents will not be sufficient to fund the Company's share of the costs to implement the Mmamabula Energy Project following Financial Close and fund ongoing working capital requirements of the Company and additional funds will be required. Such additional funds are expected to consist primarily of non-recourse project debt at the level of the MEP project companies, and equity raised via joint venture arrangements related to such project companies, and further capital raising by CIC Energy if required. The ability to raise such funding is always uncertain and there can be no assurance that such funds will be available in the quantities required on acceptable terms. This is particularly true in the current global credit markets and financial markets which are currently characterised by significant reductions in liquidity.

The Company has no long term debt, capital lease obligations, operating leases, purchase obligations (being an agreement to purchase goods or services that is enforceable and legally binding on the Company that specifies all

significant terms) or any other material long term obligations, other than leases and rentals of office premises. The Company's financial instruments are limited to cash and cash equivalents, other receivables, accounts payable and accrued liabilities of a short term duration and are not subject to trading risk. The Company does not consider that it is currently exposed to any significant risks of default on dividend payments, debt payments, debt covenants or other contractual obligations.

Please see *Section 15: Risks* and *Section 17: Cautionary Statement Regarding Forward-Looking Statements* for further details.

## 6. Capital Resources

### **Working Capital**

As of February 28, 2009, the Company had working capital of \$76.6 million. The reduction in working capital reflects the excess of cash used in investment activities and financing activities over cash generated from operating activities. The Company has no long-term debt.

### **Capital Expenditure on Exploration Properties**

(in thousands of \$)

#### *Mmamabula Energy Project*

	Balance at beginning of year	Three months ended February 28, 2009	Balance at February 28, 2009
Exploration Properties	121,435	9,623	131,058

The balance at February 28, 2009 includes exploration, staff and relevant legal costs capitalized (\$4.2 million) as well as the cost of purchasing 100% shareholding in Meepong Resources (\$4.2 million). Historically these costs have all been allocated to the Mmamabula Energy Project. A share of such costs will be allocated to CIC Resources in conjunction with the transfer of PL11/2004 and PL 75/2002.

#### *Mmamabula Energy Project Infrastructure*

	Balance at beginning of year	Three months ended February 28, 2009	Balance at February 28, 2009
Infrastructure	1,590	-	1,590

No further infrastructure development costs were incurred for the three months ended February 28, 2009.

*Coal-to-Hydrocarbons Project*

	Balance at beginning of year	Three months ended February 28, 2009	Balance at February 28, 2009
Coal-to-Hydrocarbons Project	3,933	-	3,933

The Coal-to-Hydrocarbons Project is intended to produce synthesis gas from coal, which can then be converted to a variety of downstream products including petrochemicals, gas and fuels. The balance of February 28, 2009 includes dedicated staff and consulting costs incurred in developing this opportunity, but does not include any exploration and related costs for coal resource development referred to above.

*Export Coal Project*

The Company is currently evaluating pre-feasibility studies on the Export Coal Project which is intended to develop a rail transportation solution and export coal terminal.

**Capital Raising Activities**

There were no fund raising activities for the three months ended February 28, 2009 and there are no investments in asset-backed commercial paper.

**Normal Course Issuer Bid**

On September 24, 2008, CIC Energy announced that it had obtained approval from the Toronto Stock Exchange ("TSX") in terms of which the Company will be permitted to purchase up to 2,688,288 common shares in the open market over a twelve month period. Daily purchases are limited to 29,814 common shares, except when block purchases are made. The bid commenced on September 26, 2008 and will end on September 25, 2009. The purchases in the open market will be made through the facilities of the TSX and conducted at the market price at the time of acquisition. All shares purchased by the Company will be subsequently cancelled. As of April 14, 2009, the Company had purchased a total of 1,191,800 shares under the normal course issuer bid.

**7. Off-Balance Sheet Arrangements**

As of the date of this MD&A, there were no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

**8. Transactions with Related Parties**

Included in the consolidated financial statements are payments made to companies under the control or significant influence of officers and directors of CIC Energy. These transactions are recorded at the exchange amount, being the amount agreed to by the parties and are in the ordinary course of business. A summary of these transactions follows:

CIC Energy carries on business outside Canada. On August 1, 2005, the Company entered into an administrative service agreement (the "**Agreement**") with Tau Capital Corp. ("**Tau**") for the provision of administrative, advisory and investor relation services, and to assist in fulfilling the Company's ongoing obligations as a reporting issuer listed for

trading on a stock exchange in Canada. Tau is a private company controlled by Warren Newfield, the Chairman, Chief Executive Officer and a director of the Company.

The Agreement had an initial term of three years, terminating on July 31, 2008, whereupon it was renewed for a further year. The terms of the Agreement require the Company to pay a monthly service fee of US\$23,000. In addition an amount of \$123,118 was charged to the Company in respect of cost recoveries and additional services rendered outside the Agreement for the three months ended February 28, 2009.

## **9. Proposed Transactions**

As of the date of this MD&A, there were no proposed asset or business acquisitions or dispositions expected to have an effect on the financial condition, results of operations or cash flows of the Company.

## **10. Critical Accounting Estimates**

In preparing financial statements in accordance with Canadian GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities and expenses for the three months ended February 28, 2009.

Critical accounting estimates represent estimates that are uncertain and for which changes in those estimates could materially impact on the CIC Energy's financial statements. Management reviews its estimates and assumptions on an ongoing basis using the most current information available. Management considers that the estimates and assumptions that have been made are reasonable and appropriate as of the date hereof, based on the most current information available. The following accounting estimates are critical:

### ***Impairment of mineral properties and deferred expenditure***

Long-lived assets, including property and equipment, goodwill, mineral assets, mine infrastructure and exploration properties, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Management has considered the carrying amounts of the long-lived assets and has determined that the estimated undiscounted future cash flows expected to be generated by the Company's project development activities, in particular the Mmamabula Energy Project, through a combination of development fees that CIC Energy may become entitled to, the entering into of joint venture agreements, reimbursement of project development expenses and/or future dividend income following the commencement of operations.

A failure to reach Financial Close of the Mmamabula Energy Project accompanied by an inability to develop alternative markets for the coal resource could result in the need to impair assets related to the exploration properties. Continued weakness in global energy markets could result in the need to impair assets related to the development of the CTH Project and/or the Export Coal Project.

Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of discontinued operations classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

### ***Income taxes***

Income taxes are accounted for using the liability method under which future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment. In assessing future tax assets, CIC Energy considers whether it is more likely than not that some portion or all of the future income tax assets will be realized and whether a valuation allowance is required.

### ***Stock based compensation***

CIC Energy offers stock based compensation to directors, officers, employees and key consultants from time to time under either CIC Energy's rolling ten percent stock option plan or in the form of warrants granted in accordance with the rules and regulations of the Toronto Stock Exchange.

CIC Energy uses the Black-Scholes model to estimate the fair value of stock based compensation. Under the fair value based method, compensation cost for equity settled stock based compensation and direct awards of stock is measured at fair value at the grant date, while compensation costs for awards that call for settlement in cash or other assets, or are stock appreciation rights that call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, is measured at the ultimate settlement amount. Compensation cost is recognized in earnings on a straight-line basis over the relevant vesting period. The counterpart is recognized in contributed surplus. Upon exercise of a stock option or warrant, share capital is recorded at the sum of the proceeds received and the related amount of contributed surplus.

This model, and other models which are used to value stock based compensation, require inputs such as expected volatility, expected life to exercise and interest rates. The Company evaluates the relevant inputs at the end of each fiscal quarter based on historical volatility and expectations on the achievement of milestones for stock based compensation that vests on achievement of milestones rather than the passage of time. Changes in any of these inputs could cause a significant change in the stock-based compensation expense charged in a period.

## **11. Changes in Accounting Policy**

### ***(a) Going Concern***

The Company has considered the amendments to CICA HB Section 1400 General Standards of Financial Statement Presentation. The amendments apply to interim and annual financial statements for the fiscal years beginning on or after January 1, 2008 and require the Company to carefully assess and disclose the material uncertainties that may put in question its ability to continue as a going concern. The Company has taken into account all available information about the future as well as other factors and concluded that the going concern basis of accounting is appropriate.

### ***(b) Goodwill and intangible assets***

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets* which replaced existing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development*. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This Section will apply to interim and annual financial statements on January 1, 2009 and will be adopted on a retrospective basis.

The Company has evaluated the new section and determined that adoption of these new requirements will have no impact on the Company's consolidated financial statements.

*(c) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company has evaluated the new section and determined that adoption of these new requirements will have no impact on the Company's consolidated financial statements.

**FUTURE ACCOUNTING POLICIES**

*(a) Business Combinations*

In October 2008, the CICA issued Handbook section 1582, Business Combinations, which establishes new standards for accounting for business combinations. This is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Company is considering early adoption to coincide with the adoption of International Financial Reporting Standards. The Company does not expect that the adoption of this new standard will have any impact on its financial statement disclosures or result of operations.

*(b) Non-Controlling Interest*

In October 2008, the Accounting Standards Board ("AcSB") issued Handbook section 1602, Non-controlling Interests, to provide guidance on accounting for non-controlling interests subsequent to a business combination. The section is effective for fiscal years beginning on or after January 2011. The Company does not expect that the adoption of this new standard will have any impact on its financial statement disclosures or result of operations.

**12. Financial Instruments and Other Instruments**

The only financial instruments that the Company has are cash and cash equivalents, other receivables, accounts payable and accrued liabilities which are short-term financial instruments whose fair value approximates their carrying value given that their maturity period is short. CIC Energy is exposed to foreign currency risk with respect to certain of its receivables and accounts payable and other accrued liabilities. The Company does not mitigate this risk.

As of the date of this MD&A, there were no other instruments held by the Company that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

### 13. Disclosure of Outstanding Share Data

The following details the share capital structure as at April 14, 2009. These figures may be subject to minor accounting adjustments prior to presentation in future consolidated financial statements.

	Expiry Date	Exercise price	Number	Total
Common Shares	N/A	N/A		52,573,969
Share Options	May 7, 2009	\$6.90	340,000	5,109,750
	April 17, 2014	\$6.90	1,740,500	
	July 26, 2014	\$8.00	497,250	
	Sept 1, 2014	\$8.00	300,000	
	Nov 2, 2014	\$8.61	35,000	
		\$14.00	75,000	
	Dec 22, 2014	\$13.15	412,000	
	Mar 2, 2015	\$15.82	310,000	
	June 1, 2015	\$14.90	325,000	
	Oct 1, 2015	\$16.25	115,000	
	March 10, 2016	\$16.25	250,000	
	March 13, 2016	\$17.30	525,000	
	Oct 7, 2016	\$8.00	125,000	
	Mar 1, 2017	\$4.00	60,000	
Common Shares issuable upon exercise of Warrants	Dec 8, 2014	\$11.00	200,000	1,525,000
	Jan 1, 2015	\$11.00	550,000	
	Feb 1, 2015	\$11.00	200,000	
	Mar 1, 2015	\$14.00	225,000	
	Sep 14, 2015	\$16.25	150,000	
	Jun 6, 2016	\$16.24	200,000	
Total number of Fully Diluted Shares				59,208,719

### 14. Internal Control Over Financial Reporting

No changes were made to the Company's internal control over financial reporting during period beginning on December 1, 2008 and ended on February 28, 2009, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### 15. Risks

The operations of CIC Energy are high-risk due to the scope, complexity, nature and stage of development of the Mmamabula Energy Complex, and in particular the Mmamabula Energy Project. CIC Energy has a limited operating history from which its business and prospects can be evaluated. As a result, forecasts of any potential growth of the business of CIC Energy are difficult to evaluate. CIC Energy's business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development. The following risk factors could materially affect CIC Energy's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to CIC Energy. CIC Energy may face

additional risks and uncertainties other than those listed below, including, risks and uncertainties that are unknown to CIC Energy or risks and uncertainties that CIC Energy now believes to be unimportant, which could have a material adverse effect on the business of CIC Energy. If any of the following risks actually occur, the business, financial condition and/or results of operations of CIC Energy could be negatively affected.

### ***Project Development Risks***

Although CIC Energy has entered into a number of memoranda of understanding and heads of agreement concerning the development of the Mmamabula Energy Project, if CIC Energy fails to enter into all requisite definitive agreements, CIC Energy may be unable to proceed with the development of the Mmamabula Energy Project. The ability to secure such agreements in the first instance is beyond the control of CIC Energy and, furthermore, due to the planned scale of operations, CIC Energy, whether directly or indirectly, is dependent on third parties for the conclusion of such contracts on favourable terms. In addition, the success of the Mmamabula Energy Project will be dependent upon each of the contractual counterparties complying in all material respects with the terms and conditions of the relevant contracts. Any breach by any of such entities of their obligations would adversely affect the successful development and operation of the Mmamabula Energy Project and, in turn, the business, financial condition and results of operations of CIC Energy.

Due to its envisaged scale, the Mmamabula Energy Project is dependent on the ability of CIC Energy to conclude agreements with equity partners, including an arrangement with an independent power producer ("IPP") partner. If CIC Energy fails to enter into all requisite equity agreements, CIC Energy may be unable to proceed with the development of the Mmamabula Energy Project.

The power produced by the Mmamabula Energy Project is intended to be sold to Eskom and BPC under PPAs with an operating term of approximately 30 years. The failure to conclude PPAs with Eskom and BPC on favourable terms could result in the Mmamabula Energy Project being commercially unfeasible. Following the conclusion of the PPAs with Eskom and BPC, Eskom and BPC will each be required to obtain certain approvals from the Governments of South Africa and Botswana respectively, and relevant regulatory bodies, and no assurance can be given that such approvals will be obtained in a timely manner or at all. The price of electricity under the PPAs is subject to negotiation with Eskom and BPC, which will have due regard to the price of alternative competitive power supplies. The price and amount of capacity and energy that may be sold under a PPA is beyond the control of CIC Energy.

In order to finalize the PPAs with Eskom and/or BPC, and to obtain financing for the Mmamabula Energy Project, the parties have to reach agreement on, among other things, the applicable tariff, and certain concessions may need to be obtained from the Government of Botswana, including tax concessions. Failure to obtain acceptable tariffs and/or the foregoing concessions may have a material adverse impact on the viability and possible profitability of the Mmamabula Energy Project and on CIC Energy's financial condition.

In order to secure the schedule for commercial operations of the power station desired by Eskom and BPC, CIC Energy may have to incur costs or accept liability for termination amounts for preliminary design work, early construction works and other preparatory work, both to the EPC contractor and to third parties, which amounts would be incurred prior to the achievement of Financial Close. In the event that Financial Close for the Mmamabula Energy Project is not subsequently achieved, it may not be possible for CIC Energy to recover such costs, which would have a negative impact on CIC Energy's business, financial condition and/or results of operations.

CIC Energy will also be required to procure significant mining and processing plant equipment for its mining operations, as well as general infrastructure, the pricing and availability of which is beyond the control of CIC Energy.

CIC Energy's business plans depend on its ability to hold various mineral rights which requires certain licences, permits and authorizations and, in some cases, renewals of existing licences, permits and authorizations from various

governmental and quasi-governmental authorities. The ownership and operation of the proposed power station for the Mmamabula Energy Project is dependent on the ability of Meepong Energy to obtain an IPP Licence, which will be subject to the fulfillment of a number of conditions, including the discretion of government authorities. The ownership and operation of the proposed mine for the Mmamabula Energy Project is dependent on the ability of Meepong Resources to obtain a Mining Licence, which will be subject to the fulfillment of a number of conditions, including the discretion of government authorities. In addition to the IPP Licence and the Mining Licence, there are other licences, permits, consents, approvals and concessions required from the Government of Botswana, in order to proceed with the development and operation of the Mmamabula Energy Project. The inability to obtain the IPP Licence, the Mining Licence, or any other such licences, permits, consents, approvals and concessions would have a material adverse effect on CIC Energy's business, financial condition and/or results of operations.

CIC Energy's business plans depend on its ability to hold various mineral rights which requires certain licences, permits and authorizations and, in some cases, renewals of existing licences, permits and authorizations from various governmental and quasi-governmental authorities. CIC Energy's ability to obtain, sustain or renew such licences, permits and authorizations on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable governmental and quasi-governmental bodies. No assurance can be given that CIC Energy's properties are not subject to undetected or unregistered interests or claims, whether in contract or tort, which could be material and adverse to it.

CIC Energy is dependent on the services of key executives, including certain of its directors and a small number of highly skilled and experienced consultants. Due to the relatively small size of CIC Energy, the loss of these persons or CIC Energy's inability to attract and retain additional highly skilled employees or consultants may adversely affect its business and future operations.

Although CIC Energy maintains liability insurance in an amount that it considers consistent with industry practice for a company in the development stage, the nature of these risks is such that liabilities could exceed policy limits, in which event CIC Energy could incur significant costs that could have a material adverse effect upon its financial condition.

### ***Operating Risks***

Resource estimates and estimates of cash operating costs are, to a large extent, based upon the interpretation of geologic data obtained from drill holes and other sampling techniques, and feasibility studies which derive estimates of cash operating costs based upon anticipated tonnage and grades of coal to be mined and processed, ground conditions, the configuration of the coal seams, expected recovery rates of coal from the seams, estimated operating costs, anticipated climatic conditions and other factors. As a result, it is possible that actual cash operating costs and economic returns will differ significantly from those estimated for a project prior to production. New mining operations may experience unexpected problems during the start-up phase and delays in the commencement of production can occur. In addition, geological complexity, mining hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from a mine.

The operation of the Mmamabula Energy Project will be subject to a number of risks and hazards, generally, including adverse environmental and climatic conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory regime, natural phenomena, flooding, delays or failures in obtaining required licences, permits and authorizations, supplies, machinery, equipment or labour and other risks typically associated with mining/industrial/logistical development and operations. Unknown factors with respect to such development and operations are also involved. Existing and future environmental laws may cause significant additional expenses, capital expenditure, restrictions and delays in the development and operation of the Mmamabula Energy Project, the extent of which cannot be predicted and which may well be beyond CIC Energy's capacity to fund. Environmental and social impact studies may also be required for some operations and significant fines and clean-up responsibilities may be assessed for companies causing damage to the environment in the course of their activities.

The ability to generate power for sale to Eskom and BPC is dependent on factors beyond the control of CIC Energy, including, but not limited to, the availability of the power station, the volume of coal mined, the price and amount of power sold and the completion of the development of the Mmamabula Energy Project within budget and on schedule. Anything which adversely affects price and volume (of either coal or power) and the development of the Mmamabula Energy Project could adversely affect the business, financial condition or results of operations of CIC Energy.

Coal mining, coal processing and power generation activities envisaged at the Mmamabula Energy Project can be demanding on water resources. Sulphur content of the coal must be reduced in accordance with World Bank emission standards. The inability to secure access to water and sorbent in sufficient quantities and/or at cost effective prices may have a negative impact on the operation of the Mmamabula Energy Project.

For the proposed power station to deliver electricity, it will be necessary to construct and operate new power transmission lines to connect to the Eskom and/or BPC networks. No assurance can be given that the optimal power line routing can be established, or that it can be established without incurring excessive cost. CIC Energy can also not guarantee that Eskom and/or BPC will be able to construct the necessary power transmission infrastructure in a timely manner for the Mmamabula Energy Project. As well, there is also a dispatch risk for the power that is generated, depending on the current status of the transmission network and other generation assets on the network. Unavailability of transmission networks to evacuate the power produced by the power plant, as well as other disturbances on the interconnected networks in the Southern African Power Pool could reduce the amount of electricity sold and as such impact on CIC Energy's financial results.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditure, installation of additional equipment, or remedial actions. Parties engaged in mining or energy operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations, which may adversely affect CIC Energy.

Amendments to current laws, regulations and permits governing operations and activities of mining companies or energy companies, or more stringent implementation thereof, could have a material adverse impact on CIC Energy and cause increases in capital expenditure or operating costs, reduction in levels of coal production, or delays in the development and operation of the Mmamabula Energy Project. There can be no assurance that income tax laws, royalty regulation and governmental programs relating to the mining and power and other relevant industries in Botswana will not be changed in a manner which adversely affects CIC Energy.

Revenue from the Mmamabula Energy Project is expected to be received in Rand, which may not match the currencies in which a material portion of operating expenses and ongoing capital equipment replacement costs are expected to be incurred. Accordingly, foreign currency fluctuations may adversely affect CIC Energy's financial position and operating results. CIC Energy does not currently engage in foreign currency hedging activities for operational purposes or otherwise but CIC Energy does anticipate that substantial hedges and/or cross currency will be required as part of the debt financing process, the failure to enter into either at all or on favourable terms could adversely affect CIC Energy's financial position and operating results.

### ***Financing Risks***

The implementation of the Mmamabula Energy Project will require substantial additional financing. There can be no assurance that financing for the implementation of the Mmamabula Energy Project will be available or, if available, will be available on favourable terms or in a timely manner. Failure to obtain sufficient financing when needed will result in a delay or indefinite postponement of development the Mmamabula Energy Project and will have a material adverse

effect on CIC Energy's business, financial condition and results of operations. The only current source of funds available to CIC Energy is through the issuance of equity or debt, the monetization of any future development fees that CIC Energy is or may become entitled to, or the entering into of joint venture agreements.

In particular, as a result of the ongoing global credit crisis affecting international financial institutions, international debt markets are currently characterized by an absence of liquidity, which is resulting in severe difficulty in obtaining commercial debt financing. Furthermore, global securities markets are currently experiencing extreme volatility, which is resulting in severe difficulty in raising equity capital.

In addition to the foregoing, in the event that the tariff under the PPAs is payable in Rand, the development of the Mmamabula Energy Project may require the raising of substantial debt financing in Rand. Due to South African statutory limits which limit the amount that a single lender is able to lend to a single borrower as well as the fact that the Rand market is more limited and less liquid than other "hard currency" markets, including the US dollar market, there is a risk that sufficient Rand to finance the Mmamabula Energy Project may not be available. In addition, increases in South African interest rates may increase the cost of Rand based project debt funding and adversely impact the Mmamabula Energy Project. In addition, during times of global economic uncertainty, such as those currently being experienced, emerging market currencies (such as the Rand) and interest rates often display greater sensitivity and volatility than currencies in the G8 and other developed countries.

In the event that the Company successfully negotiates PPAs with Eskom and/or BPC, credit support may be required from the Government of South Africa and/or the Government of Botswana, respectively, in order to support the financial obligations of each of Eskom and/or BPC under the PPAs. The inability to obtain such credit support could adversely affect the ability to secure funding for the Mmamabula Energy Project.

Consistent with international practice for limited recourse project finance, CIC Energy may be required to pledge all (or substantially all) of its ownership interest in each project to the financial institutions providing such limited recourse project finance for such project as security for the repayment of the funds provided by such financial institutions. In the event that the primary obligor under the financing agreements for a project fails to comply with its obligations under such financing agreements, such financial institutions may exercise contractual rights to enforce their security interest over CIC Energy's ownership interest in the relevant project, which may result in CIC Energy losing all or part of its investment in the relevant project.

## **16. Outlook**

CIC Energy's development of the MEC Coalfield is proceeding both with respect to the coal resources, and the projects that make up the Mmamabula Energy Complex, with more attention being given to the MEP than to the CTH Project and the Export Coal Project due to the stage of development of the MEP.

With respect to the coal resources, the final mine plan for the MEP has been completed and an application for a mining licence in respect thereof has been submitted to the Government of Botswana. CIC Energy continues to define which coal resources will be suitable for the other projects that are contemplated to be developed as part of the Mmamabula Energy Complex, and to investigate possible mining plans for the remaining coal resources, with the objective of maximizing the utilization of the total resource.

The major milestones to be achieved on the Mmamabula Energy Project are expected to be: completion of negotiations with equity investors (including an independent power producer partner to operate the MEP power station), completion of negotiations and execution of the PPAs with Eskom and BPC, completion of negotiations and execution of contracts for mine and infrastructure development, completion and negotiations and execution of various documents with the Government of Botswana, issuance of an IPP Licence, mining licence and other licences and permits, negotiation and

execution of financing documents with the project lenders, satisfaction of the conditions precedent to the disbursement of funds and start of construction.

With respect to the CTH Project, the primary activities to be undertaken are receipt and review of the value-chain analysis, identification of preferred technology solutions, identification of preferred end products, identification of preferred markets and logistical solutions, and, assuming that market conditions are considered to be favourable, identification of preferred investment partners, and completion of environmental impact assessments and a bankable feasibility study.

With respect to the Export Coal Project, the primary activities to be undertaken are the evaluation of the prefeasibility study on mine, rail and port options and engagement with the potential host governments on possible development alternatives.

## **17. Cautionary Statement Regarding Forward-Looking Statements**

This Management's Discussion and Analysis contains certain "forward-looking statements". All statements, other than statements of historical fact, that address activities, events or developments that CIC Energy believes, expects or anticipates will or may occur in the future are forward-looking statements. These forward-looking statements reflect the current expectations or beliefs of CIC Energy based on information currently available to CIC Energy. Such forward-looking statements include, among other things, statements relating to: the Mmamabula Energy Project; development activities, planned operations, anticipated expenditure (including anticipated capital equipment and infrastructure costs), the demand for power in southern Africa and the commencement of operations and the production of power at the Mmamabula Energy Project; estimates and/or assumptions in respect of mineral resources, mineral resource qualities, targets, future production, goals, scheduling, objectives and plans; and future economic, market and other conditions. Forward-looking statements are subject to significant risks and uncertainties and other factors that could cause the actual results to differ materially from those discussed in the forward-looking statements, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company.

Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: power purchase agreements and/or transmission agreements with Eskom Holdings Limited and/or Botswana Power Corporation and other requisite agreements for the development, operation and financing of the Mmamabula Energy Project, on favourable terms or at all; the failure of the counterparties to such requisite agreements (including the EPC contract with SEC) to comply in all material respects with the terms and conditions of such agreements; the failure to complete agreements with equity partners, including an arrangement with an IPP partner on favourable terms or at all; the ability to raise the required debt or equity financing for the implementation of the Mmamabula Energy Project on favourable terms or at all; capital equipment, infrastructure and operating costs varying significantly from estimates; delays in the development of the Mmamabula Energy Project caused by delays in reaching necessary agreements with relevant counterparties, events of force majeure or otherwise; the failure to obtain acceptable tariffs and/or concessions, including tax concessions, from the Government of Botswana; inability to obtain requisite credit support from the Government of South Africa and/or the Government of Botswana in relation to the Mmamabula Energy Project; delays in the development of the Mmamabula Energy Project caused by the unavailability of equipment, labour or supplies, climatic conditions or otherwise; delays or failures in obtaining regulatory permits and/or licences (and renewals thereof) respecting mining, power generation and/or power transmission lines and other transportation and industrial activities; in respect of licence areas that the Company has relinquished, the failure to have identified the areas with the least exploitable coal and/or where such coal is least likely to be exploited on a commercially attractive basis; the existence of undetected or unregistered interests or claims, whether in contract or tort, over the properties of the Company and its subsidiaries; the loss of any key executives, employees or consultants; inflation; changes in exchange rates; Rand liquidity and constraints under applicable South African law and/or practice

on the amount that a single lender is permitted to lend a single borrower; volatility of and sensitivity to market prices for coal and prices (market or otherwise) for electricity; changes in anticipated demand for power in southern Africa; changes in equity markets; environmental and safety risks, including increased regulatory burdens; insufficient or sub-optimal transportation and transmission capacity; dispatch risk; geological and mechanical conditions; availability of water and sorbent; amendments to the laws of South Africa or Botswana that may be prejudicial to the development of the Mmamabula Energy Project, or the failure to obtain amendments to any such laws that may be necessary to implement the Mmamabula Energy Project; political risks arising from operating in Africa; lack of markets for the Company's coal resources; the failure of the feasibility and value-chain market studies on the CTH Project to be positive; the failure of the feasibility and market studies on the Export Coal Project to be positive and/or a failure to develop a viable transportation solution to export coal (with or without the participation of the relevant local governments); the grade, quality and recovery of coal which is mined varying from estimates; or other factors (including development and operating risks).

Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, CIC Energy disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although CIC Energy believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.