



CIC ENERGY CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended November 30, 2006

Dated: February 26, 2007

TABLE OF CONTENTS

1	Introduction .....	2
2	Description of the Business and Summary of Recent Activities.....	2
3	Qualified Persons and Technical Report.....	4
4	Exploration Properties.....	4
5	Exploration & Mineral Resource Estimates.....	5
6	Bankable Feasibility Study.....	7
7	Memoranda of Understanding .....	8
8	Regulatory .....	9
9	Selection of Development Partner .....	10
10	Appointments .....	10
11	Settlement of Highland Star Group Dispute .....	11
12	Critical Accounting Estimates and Accounting Policies .....	11
13	Disclosure of Outstanding Share Data.....	14
14	Capital Expenditure on Exploration Properties .....	15
15	Results of Operations .....	16
16	Summary of Quarterly Results.....	16
17	Financial Condition, Cash Flow, Liquidity and Capital Resources .....	17
18	Summary of Selected Annual Results.....	18
19	Related Party Transactions.....	18
20	Events Subsequent to November 30, 2006 .....	19
21	Risks .....	20
22	Disclosure Controls and Procedures.....	23
23	Outlook .....	24
24	Additional Information .....	24

Unless otherwise indicated all funds in this document are in Canadian Dollars.

#### *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 Corp. 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 Corp. based on information currently available to CIC Energy Corp. Such forward-looking statements include, among other things, statements relating to the Mmamabula Energy Project (as defined herein) with respect to estimates and/or assumptions in respect of mineral resources, mineral resource qualities, targets, future production, goals, objectives, 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: failure to complete a positive bankable feasibility study on the Mmamabula Energy Project; the grade, quality and recovery of coal which is mined varying from estimates (the mineral resource figures referred to in this Management's Discussion and Analysis are estimates and no assurances can be given that the indicated levels of coal will be produced); inflation; changes in exchange rates; the ability to raise the required debt financing for the Mmamabula Energy Project; Rand liquidity and constraints under applicable South African law and/or practice on the amount that a single lender is able to lend to a single borrower; delays in the development of the Mmamabula Energy Project caused by unavailability of equipment, labour or supplies, limited capacity among engineering, procurement and construction firms, climatic conditions or otherwise; insufficient transportation and transmission capacity, geological and mechanical conditions; delays or failures in obtaining regulatory permits and/or licences respecting mining, power generation and/or power transmission lines; the existence of undetected or unregistered interests or claims, whether in contract or tort, over the properties of CIC Energy Corp.; availability of water (and sorbent at cost effective prices); inability to enter into power purchase agreements and/or transmission agreements with Eskom Holdings Limited and (to a lesser extent) Botswana Power Corporation or other requisite agreements, including fixed price contracts with reputable engineering, procurement and construction firm(s) and other agreements required to facilitate the development, operation and financing of the Mmamabula Energy Project, including with International Power plc; failure to raise additional funds on favourable terms to finance such development; inability to obtain tax concessions from the Government of Botswana and requisite credit support from the Government of South Africa and/or the Government of Botswana; 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 Corp. 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 Corp. 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.*

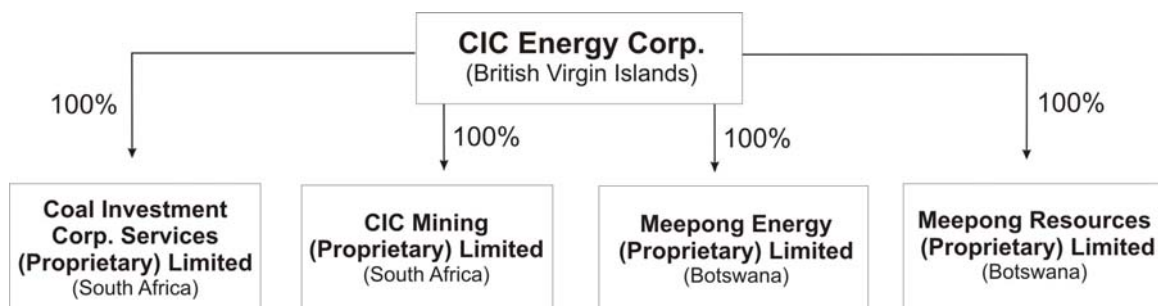
## 1 Introduction

CIC Energy Corp. (formerly Coal Investment Corp.) ("CIC" or the "Company") was established under the International Business Companies Act in the Territory of the British Virgin Islands pursuant to the consolidation of Coal Investment Corp. and Consolidated Ophir Ventures Inc. ("Ophir"), effective March 14, 2006. The common shares of CIC 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 were listed on the Botswana Stock Exchange ("BSE") under the name CIC ENERGY.

The registered office and head office of CIC are each located at Geneva Place, Second Floor, 333 Waterfront Drive, Wickham's Cay, Road Town, Tortola, British Virgin Islands. The address for service of CIC in Canada is c/o 110 Sheppard Avenue East, Suite 610, Toronto, Ontario, Canada, M2N 6Y8 (Attention: Tau Capital Corp.). The South Africa address is c/o Coal Investment Corp. Services (Proprietary) Limited, Inanda Greens, Ground Floor, Agusta House, Unit 6, Albertyn St., Wierda Valley, Sandton, PO Box 784938; the Botswana address is 1<sup>st</sup> Floor, Victoria House, Plot 132, Independence Avenue, Gaborone, Botswana.

This Management's Discussion and Analysis ("MD&A") has been prepared to give shareholders an assessment of not only what the Company has accomplished in the financial year ended November 30, 2006, but also what management initiatives have been undertaken to increase shareholder value in the future.

The following diagram illustrates CIC's principal subsidiaries, together with the jurisdiction of incorporation of each company:



The discussion and analysis of the financial condition of CIC for the financial year ended November 30, 2006 should be read in conjunction with the audited consolidated financial statements and related notes for CIC and its wholly-owned subsidiaries, Coal Investment Corp. Services (Proprietary) Limited, CIC Mining (Proprietary) Limited, Meepong Resources (Proprietary) Limited ("Meepong Resources") and Meepong Energy (Proprietary) Limited ("Meepong Energy") for the year ended November 30, 2006. Historical results, including trends which might appear, should not be taken as indicative of future results.

All financial information reported herein for the year ended November 30, 2006 has been audited.

## 2 Description of the Business and Summary of Recent Activities

CIC is engaged in the development of two non-contiguous greenfields coal properties located in the Mmamabula Coalfields in Southeastern Botswana, with the objective of supplying fuel to major, integrated,

mine-mouth power stations. It is envisaged that the power stations will supply electricity to the Southern African region. Collectively, the two coal properties and the proposed power stations are referred to as the "Mmamabula Energy Project" ("Mmamabula" or the "Project").

The two coal properties, which are held 100% by CIC's wholly-owned Botswana subsidiary, Meepong Resources, consist of the 50,840 hectare ("ha") Coal Prospecting Licence No. 11/2004 ("Mmamabula East") and the 14,000 ha Coal Prospecting Licence No. 75/2002 ("Mmamabula South"). Meepong Resources is currently exploring and developing the Project with the intention of defining coal resources which may be suitable as thermal coal for an integrated coal-fired power station. Mineral resources have been reported by CIC for two areas within Mmamabula East, namely the Mookane Block and the Dovedale Block; these mineral resources are discussed further in *Section 5: Exploration & Mineral Resource Estimates*. The proposed power station site at Mmamabula is some 80 kilometres ("km") west of the 3,690 megawatt ("MW") (net capacity) Matimba Power Station ("Matimba") in South Africa, operated by Eskom Holdings Limited ("Eskom"), South Africa's national electrical utility. The Mmamabula site has excellent infrastructure, with proximity to road, rail, and power.

The Southern African region is currently experiencing major peaking power shortages and major baseload generation capacity shortages are predicted to begin as early as 2011 (cf. Absa Bank of South Africa Limited, a subsidiary of Barclays Bank). Based on projected upcoming power deficits, the Southern African regional utilities, including Eskom, are promoting new projects and will require additional power to meet their requirements. To address part of the projected power shortfall, CIC is currently conducting a Bankable Feasibility Study ("BFS") for an integrated coal mine and power station to be built as a two-phase project to commence providing electricity to the Southern African power grid in 2011.

It was previously the Company's stated intention to develop a six unit power station of 600 MW (net capacity) per unit, for a total net capacity of 3,600 MW. However, subsequent to year-end the Company announced its intention to modify the sizing of the Project to allow for a larger overall power plant, built in two equivalent phases. It is envisaged that Phase One will include a 7.5 to 9.0 million tonne ("Mt") per annum (run-of-mine; "ROM") coal mine which would supply a 2,100 to 2,460 MW (net capacity) power station. The Phase One power station is planned to be built as three units of 700 to 820 MW each, with the final unit size to be determined as part of the negotiation of an Engineering, Procurement and Construction ("EPC") Contract.

Construction of Phase One is scheduled to begin in Q1/08, with commercial operations of the first unit expected in the second half of 2011. The second and third units are scheduled to come on-line at six to eight month intervals from this date. Construction of Phase Two is anticipated to begin subsequent to completion of construction of Phase One and following completion of a positive Phase Two BFS.

All key agreements and contracts currently being negotiated and discussed herein relate only to the Phase One power station. However, the potential electricity off-takers have expressed interest in the proposed Phase Two expansion. All studies being performed, and licenses and permits being sought are based on the two phases of the Project, being the six unit power station with a total net capacity of 4,200 to 4,920 MW.

CIC's principal business objective is to develop and operate integrated mine-mouth power stations at Mmamabula. Shareholder value through the generation of cash flow is planned to come from the direct development of the Project. Mmamabula is well-positioned to meet the objective of CIC and the Project is being pursued at an accelerated rate.

### 3 Qualified Persons and Technical Report

Exploration at Mmamabula is being conducted under the supervision of Mr. Patrick G. Cochran. Mr. Cochran, a self-employed Consulting Geologist, independent of CIC, is a registered Professional Natural Scientist with the South African Council for Natural Scientific Professions and a "Qualified Person", as such term is defined in National Instrument 43-101 ("NI 43-101"). Mr. Cochran has reviewed and approved the technical information in this MD&A.

An independent technical report on the Project entitled "CIC Energy Corp.: Mmamabula Energy Project, Southeastern Botswana, Project No. J912, Fourth Technical Report" (the "Technical Report"), dated October 19, 2006, containing the current mineral resource estimate for the Project and other relevant information, has been filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") and may be accessed via the SEDAR website at [www.sedar.com](http://www.sedar.com). The "Qualified Person", as such term is defined in NI 43-101, responsible for the preparation of the Technical Report and the current mineral resource estimate is Mr. Derek J. Loveday. Mr. Loveday is a registered Professional Natural Scientist with the South African Council for Natural Scientific Professions and at the time the mineral resource estimate was prepared, was an employee of Snowden Mining Industry Consultants ("Snowden").

### 4 Exploration Properties

#### (a) *Adjacent Properties*

Mmamabula is situated within the greater Mmamabula Coalfields in Southeastern Botswana. The Mmamabula Coalfields form the western extension of South Africa's Waterberg Coalfield. No operating mines have been established to date within the Mmamabula Coalfields. However, the Waterberg Coalfield is host to South Africa's largest coal mine, the 16 Mt per annum Grootegeluk Colliery, located approximately 80 km east of Mmamabula and owned by Exxaro Resources Limited. The Grootegeluk Colliery provides feed for the nearby Matimba power station.

#### (b) *Mmamabula East*

Mmamabula East is located in Botswana, 120 km to the north 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 on the property.

The Mmamabula East coal prospecting licence was granted to Meepong Investments (Proprietary) Limited ("Meepong Investments") on April 1, 2004 and subsequently transferred from Meepong Investments to Meepong Resources. The coal prospecting licence is valid for a period of three years. Subsequent to CIC's year-end, in December 2006, an application for a mining licence (the "Mining Licence") was submitted by Meepong Resources to the Government of Botswana.

Phase I drilling was completed in February 2006 and concentrated in the Mookane Block. A Phase II drilling program, which concentrated on the Dovedale Block, was completed at the end of July 2006. Results of these exploration programs and the resultant mineral resource estimates for Mmamabula East are discussed in *Section 5: Exploration and Mineral Resource Estimates*. A Phase III drilling program has commenced in the Serorome Block, located between the Mookane and Dovedale Blocks, and in the Border Block in the easternmost portion of the property.

CIC is currently assessing the water demands of the Project and potential sources of water. Water is anticipated to be sourced from a combination of groundwater, surface sources and mine dewatering. By 2011, when commercial production of the Project is planned to commence, much of the water for the

Project is planned to be sourced from a conjunctive use scheme consisting of groundwater from nearby aquifers and the North-South Carrier II ("NSC2"), a proposed water pipeline which will transport water from northern Botswana to the project area and other areas in Botswana.

*(c) Mmamabula South*

Mmamabula South is located approximately 15 km southwest of Mmamabula East. The property is transected by the country's main paved highway, which runs from Gaborone to Francistown. Secondary unpaved roads facilitate access on the property.

The Mmamabula South renewal coal prospecting licence was granted to Meepong Resources in July, 2005 and is valid for a period of two years. The Mmamabula South licence expires on June 30, 2007, subject to renewal. However, in December 2006 and subsequent to CIC's year end, an application for a Mining Licence was submitted by Meepong Resources to the Government of Botswana.

Exploration drilling at Mmamabula South by Meepong Resources as part of the Phase II exploration program is described in greater detail in *Section 5: Exploration and Mineral Resource Estimates*. This work is designed to provide an initial test of this portion of the Mmamabula Energy Project, expected to be of a level at which a mineral resource estimate can be prepared for Mmamabula South in 2007.

## **5 Exploration & Mineral Resource Estimates**

The Company, via Meepong Resources, has completed a total of 92,950 metres in 963 diamond drill holes at Mmamabula. The majority of this exploration focused on the Dovedale and Mookane Blocks. Since commencement of exploration by the Company in mid-2005, up to twelve drill rigs have been active at one time on the Project. As of the date of this report a total of seven drill rigs are currently active, focused on the Serorome and Border Blocks. The number of rigs active on the Project was reduced primarily due to a backlog in the laboratory as a result of the number of samples generated by twelve drills.

The coal seams at Mmamabula East occur within the Dibete Formation of the Upper Ecca Subgroup and Mmamabula Formations of the Middle Ecca Subgroup. The D1 seam of the Dibete Formation and M2 seam of the Mmamabula Formation have been identified from previous exploration undertaken by British Petroleum's Coal Division ("BPCD") as having the best potential to be economically extracted. CIC identified the potential value of the D1 and M2 seams, and used BPCD's information as a basis for the funding and implementation of an infill drilling and sampling program in 2005 and 2006.

The results of drilling by CIC, along with those from exploration by BPCD between 1981 and 1987 on what is now Mmamabula East, have been used as the basis for independent mineral resource estimates prepared by Snowden. On June 22, 2006, CIC announced a mineral resource estimate for the Mookane Block, the results of which are set out in a report by Snowden, dated July 21, 2006 and entitled "CIC Energy Corp.: Mmamabula Energy Project, Southeastern Botswana, Project No. J889: Third Technical Report". Subsequently, on September 7, 2006, CIC announced a mineral resource estimate for the Dovedale Block, the results of which are set out in a report by Snowden, dated October 19, 2006 and entitled "CIC Energy Corp.: Mmamabula Energy Project, Southeastern Botswana, Project No. J912: Fourth Technical Report". Both of these reports have been filed on the SEDAR website. Results of each mineral resource estimates were consistent with Management's expectations. Summaries of mineral resource estimates for the Project to date are presented in the following tables.

Mmamabula Mineral Resource Estimate Summary

Mookane Block: D1 + M2 Seams Mineral Resource Estimate<sup>1</sup>  
(effective date: June 7, 2006)

Category	Tonnage D1 Seam (Mt)	Tonnage M2 Seam (Mt)	Tonnage D1 + M2 Seams (Mt)
Measured	355.79	241.28	597.07
Indicated	27.75	27.77	55.52
Measured + Indicated (total)	383.54	269.05	652.59
Inferred	5.09	-	5.09

Dovedale Block: D1 + M2 Seams Mineral Resource Estimate<sup>2</sup>  
(effective date: September 4, 2006)

Category	Tonnage D1 Seam (Mt)	Tonnage M2 Seam (Mt)	Tonnage D1 + M2 Seams (Mt)
Measured	241.42	265.61	507.03
Indicated	54.08	78.83	132.91
Measured + Indicated (total)	295.50	344.44	639.94
Inferred	40.36	32.98	73.34

Dovedale and Mookane Blocks: D1 + M2 Seams Global Mineral Resource Estimates  
(effective dates: June 7 and September 4, 2006)

Category	Tonnage (Mt)
Measured	1,104.10
Indicated	188.43
Measured + Indicated (total)	1,292.53
Inferred	78.43

<sup>1</sup> see CIC news release dated June 22, 2006; effective date June 7, 2006; based on 0% geological loss; raw coal calorific values ("CV") of approximately 21.3 mega joules per kilogram ("MJ/kg") to 21.9 MJ/kg for the D1 horizon and 23 MJ/kg for the M2 seam

<sup>2</sup> see CIC news release dated September 7, 2006; effective date September 4, 2006; based on 2% geological loss; raw coal CV of approximately 21.4 MJ/kg to 21.6 MJ/kg for the D1 horizon and 24.3 MJ/kg to 24.5 MJ/kg for the M2 seam

The current mining method proposed for the mineral resources is conventional underground bord and pillar using continuous miners ("CM"). Alternative mining methods aimed at optimizing resource utilization are being investigated.

Sensitivity analyses for a selective mining option of the D1 seam, termed the D1S horizon, have also been prepared. This D1S horizon is equivalent to the D1M horizon reported in the initial mineral resource estimate for the Mookane Block. The mineral resource estimate for the D1S horizon in the Mookane Block consists of 310.27 Mt in the measured and indicated categories and 4.14 Mt in the inferred category and for the Dovedale Block consists of 180.82 Mt in the measured and indicated categories and 18.12 Mt in the inferred category, this information is summarized in the following table and can be compared with tonnages for the D1 seam given in the preceding tables. This select horizon, which represents the optimal

mining horizon within the D1 seam, and which is conducive to conventional underground bord and pillar CM, is based on leaving at least one metre of roof coal to ensure roof stability and, where present, poorer quality floor and additional roof coal.

Sensitivity Analyses, Mookane and Dovedale Blocks  
 D1S Horizon Mineral Resource Estimate, Mookane Block

Category	Area (ha)	Average Width (m)	Tonnage (Mt)
Measured	4,048	4.78	287.69
Indicated	311	4.69	22.58
Measured + Indicated (total/average)	4,359	4.77	310.27
Inferred	54	4.52	4.14

D1S Horizon Mineral Resource Estimate, Dovedale Block

Category	Area (ha)	Average Width (m)	Tonnage (Mt)
Measured	4,507	2.09	148.94
Indicated	932	2.18	31.88
Measured + Indicated (total/average)	5,439	2.11	180.82
Inferred	545	2.08	18.12

Additional information with respect to mineral resource estimates for the Project is set out in the Company's news releases dated June 22, 2006 and September 7, 2006, copies of which can be obtained from SEDAR.

Ongoing drilling is anticipated to be used in the preparation of a further independent mineral resource estimate for Mmamabula East and South, results of which are expected to be received and released by CIC in the first half of 2007.

## 6 Bankable Feasibility Study

On May 16, 2006, CIC announced its intention to proceed with a BFS for the Project, rather than completing a Pre-Feasibility Study as previously announced in an Ophir news release dated January 4, 2006 and discussed in greater detail in the Management Information Circular of Ophir dated February 1, 2006, each of which is available on the Company's SEDAR profile. This decision was made as a result of positive exploration results that indicated that the mineral resource could support a significant increase in project sizing. The current BFS is being conducted on a Phase One, 2,100 to 2,460 MW power station supported by a 7.5 to 9.0 Mt per annum coal mine.

The BFS will be comprised of a comprehensive series of studies by internationally recognized engineering and consulting firms independent of CIC, and will include:

- Resource modeling and mine planning by Snowden,
- Power station design and choice of technology by Black & Veatch,
- Infrastructure studies for mine, power plant and common infrastructure by Dowding, Reynard and Associates (Pty) Limited,
- Water and Environmental Studies by Environmental Resource Managers ("ERM") and Digby Wells and Associates,
- Groundwater studies by ERM,

- Surface water studies by Gibb Africa (Pty) Limited,
- Feasibility study on the NSC2 by Bigen Africa (Pty) Limited, and
- Financing plan and strategy.

In addition, a transmission and integration solution prepared in conjunction with Eskom and the Botswana Power Corporation ("BPC"), along with market and regulatory studies have been conducted by *Southern African Development through Electricity (Pty) Ltd.* ("SAD-ELEC"). These portions of the BFS are essentially complete and at the time the work was performed SAD-ELEC was independent of CIC. However, subsequent to the completion of these portions of the BFS, SAD-ELEC was acquired by CIC (see *Section 20: Events Subsequent to November 30, 2006*).

A key aspect of the BFS will be the conclusion of a Power Purchase Agreement ("PPA") with Eskom for substantially all of the power that is planned to be generated by Mmamabula. It is anticipated that a PPA of this nature would be for a period of approximately 40 years. A separate PPA may also be signed with the BPC, which is anticipated to be structured in such manner that any power within BPC's allocated off-take rights that BPC elects not to take will automatically be taken by Eskom, up to the maximum capacity of the power plant. However, to be able to develop the Project to its maximum potential, the Project is dependent on concluding a long-term PPA with Eskom. CIC has a formalized relationship with Eskom through monthly Project Steering Committee meetings and a formal mandated PPA negotiation process, which negotiation is ongoing. On May 16, 2006 the Company announced the signing of a memorandum of understanding with Eskom with respect to the Project (*Section 7: Memoranda of Understanding*).

Environmental impact assessment ("EIA") studies for the proposed coal mine, power station, water pipeline, and related infrastructure, as well as for the planned transmission lines, prepared in accordance with environmental legislation of the Government of Botswana and ultimately forming part of the BFS, are expected to be submitted before the end of March 2007. Approval of these studies by the Department of Environmental Affairs of the Government of Botswana is anticipated to be finalized by Q2/07. These approvals are a prerequisite for the granting of a mining license, a power generation licence, and surface rights at Mmamabula, as well as the acquisition of transmission line and water pipeline servitudes in Botswana. Environmental studies and social impact studies prepared in accordance with standards of the International Finance Corporation ("IFC"), the private sector arm of the World Bank Group, and related internationally-required compliance standards are ongoing. A final report is expected to be complete by Q3/07.

## **7 Memoranda of Understanding**

On May 16, 2006, CIC announced the signing of a memorandum of understanding between the Company, Meepong Resources, and Eskom in regard to the Project. Under the terms of this memorandum of understanding, it is envisaged that the majority of the power generated by the Project will be sold to Eskom under a long-term PPA, subject to various terms and conditions including, *inter alia*, any off-take agreements with the BPC, the signing of an Inter-Governmental memorandum of understanding between South Africa and Botswana and an Inter-Utility memorandum of understanding between Eskom and BPC, and agreement with respect to tariff and quality of the power. On August 18, 2006, the Inter-Governmental memorandum of understanding referred to above was signed between the Governments of the Republics of Botswana and South Africa to support and facilitate the realization of the Project.

The Project Steering Committee mentioned in *Section 6: Bankable Feasibility Study* has been established to, *inter alia*, oversee the progress of the BFS, the negotiation of a long-term PPA between Eskom and Meepong Energy and related transmission and operation agreements. A Technical Committee with

representatives of CIC, International Power plc ("IPR"), Eskom, and the BPC has been formed, to support the PPA negotiation process.

In August, 2006 an Inter-Governmental memorandum of Understanding was signed between the Governments of the Republic of Botswana and the Republic of South Africa. The Inter-Governmental memorandum of understanding provides for the co-operation and facilitation by the respective governments in the development of a thermal power station in the Mmamabula Coal Fields in the Republic of Botswana, to supply electricity to the Republic of Botswana, the Republic of South Africa and the Southern African Power Pool. Signing of this document by the two governments provides an important framework for support which is required in order for CIC to realize its objective of commencing power production at Mmamabula to supply the Southern African region by 2011.

On September 12, 2006, CIC announced the signing of a memorandum of understanding between CIC, Meepong Energy and the Government of Botswana. This memorandum of understanding sets out the process and requirements for CIC to obtain a licence to generate and supply electricity (a "Generation Licence") for Mmamabula, as well as stipulates the parties' intention to negotiate a comprehensive Project Development Agreement framework to facilitate the realization and financing of the Project.

On November 13, 2006 an Inter-Utility memorandum of understanding was signed between the BPC and Eskom regarding the development of the proposed "Mmamabula Coal Fired Power Station". This memorandum of understanding is aimed at the creation of an enabling environment for the carrying out of the BFS and business case for the possible development of the Project. As outlined in this memorandum of understanding, a Steering Committee was established which will establish work teams in respect of the PPA, transmission integration, and other matters as required. The completion of this memorandum of understanding represents confirmation of the strong support for the Mmamabula Energy Project and the intention of interested parties to work towards ensuring that the Project reaches commercial production in a timely manner.

## **8 Regulatory**

CIC's ability to own and operate a power station as an independent power producer ("IPP") is dependent on its ability to negotiate and obtain a Generation Licence. CIC does not currently hold a Generation Licence although, CIC and Meepong and the Government of Botswana have signed a memorandum of understanding with respect to the proposed development of the Project (see *Section 7: Memoranda of Understanding*). This memorandum of understanding is based on the recognition by the Signatories of the requirement for new sources of baseload power generation in the Southern African region by 2010/2011 and the potential for Mmamabula to address this shortfall. The process to be followed for awarding a Generation License to Meepong Energy and the Botswana requirements in this regard are outlined in the memorandum of understanding. Discussions between CIC and the Government of Botswana on the form and structure of the proposed Generation License are progressing as anticipated by the Company. Should CIC not secure a Generation Licence allowing it to operate as an IPP, in order to proceed with its plan to develop Mmamabula, its ability to commercialize the Project would be severely constrained.

CIC created Meepong Energy as a Botswana subsidiary that will own and operate the coal-fired power plant. Meepong Resources will own and operate the proposed coal mining operation. It is proposed that Meepong Energy and Meepong Resources will enter into an arm's-length fuel supply agreement, which will then give CIC the opportunity to enter into separate commercial arrangements with third parties in respect of each entity. On October 18, 2006, CIC announced the signing of a binding Heads of Agreement with IPR regarding the proposed development of a power station at Mmamabula. Subsequent to year end, on December 7, 2006, CIC announced that the Company had reached an Understanding in Principle with IPR

regarding the development of the Mmamabula coal mine. CIC is currently working towards the completion of definitive agreements with IPR with respect to the mine and power station.

Upon the issuance of a Mining Licence, the Government of Botswana has the right to acquire a minority interest in new mines in Botswana (generally up to a maximum of 15% for non-diamond mines), on commercial terms with the Government of Botswana paying its pro-rata share of costs incurred, as well as expenditures to be incurred on the mine.

Over and above the Generation License and the Mining License that will be required by Meepong Energy and Meepong Resources respectively, other licenses and permits will be required in Botswana related to water supply, sorbent supply to the power plant (in the case that a local source of sorbent is used), environmental compliance, and other related issues. Various transmission-related agreements will also be required in Botswana. Meepong Energy, Meepong Resources, and their respective shareholders will also need to enter into an Implementation Agreement with Government of Botswana and will possibly also require certain enabling legislation where a change to an existing act or legislation is required for the implementation of the Project.

At this point it is not expected that CIC and its subsidiary companies will require any licences in South Africa. However, Eskom will be required to secure various licences, consents, and regulatory approvals.

## **9 Selection of Development Partner**

On October 18, 2006 CIC announced the signing of a binding heads of agreement (the "Agreement") between the Company and IPR, regarding the proposed development of a Phase One power station at Mmamabula.

Under the terms of the Agreement, IPR agreed in principle to acquire 50% of the equity in the vehicle which will develop the Phase One power station. Currently it is estimated that the total development cost of the first phase power station will be approximately US\$5.5 billion (CDN\$6.2 billion). The Agreement is subject to various conditions being met and the concluding of definitive agreements. These definitive agreements are expected to be finalized by the end of Q2/07 and construction is scheduled to commence in Q1/08, subject to a PPA being concluded, financing secured and all regulatory conditions being met.

Subsequent to year-end, on December 7, 2006 CIC announced the Company had reached an understanding in principle with IPR regarding the development of the Mmamabula Coal Mine. This is described in greater detail in *Section 20: Events Subsequent to November 30, 2006*. The Government of Botswana is entitled to purchase up to a 15% interest in the mine, and if they so elect, would be required to contribute their pro-rata share of past and future exploration expenditures.

IPR is a FTSE100 company and one of the world's leading independent power generators, with a total installed capacity in excess of 18,500 MW in 20 countries worldwide. IPR has a market capitalization of approximately US\$10.5 billion and trades on the London and New York Stock Exchanges.

## **10 Appointments**

CIC has appointed Clifford Chance Europe LLP ("Clifford Chance") as Project Finance Counsel. Clifford Chance is an international law firm with extensive project finance experience in the energy sector and will assist CIC in matters relating to the completion of the BFS, agreements with governments and power utilities, EPC contracts and project financing. Tabacks and Associates (Pty) Limited, Edward Nathan Sonnenbergs Inc., and Armstrongs are local counsel in South Africa and Botswana, respectively.

CIC has engaged Absa, the largest banking group in South Africa (and a subsidiary of Barclays Bank PLC), as its financial advisor for the BFS, as well as a co-mandated debt advisor and arranger within South Africa.

Marsh Limited, London, has been appointed Insurance Advisor to provide guidance to the Company on insurance and risk mitigation issues related to the Project.

Mr. Gibbs Johnson was appointed in-house General Counsel in September, 2006. Mr. Johnson holds a Masters in International Business from the University of South Carolina and a JD from Harvard Law School. He spent eight years with Clifford Chance, based in Europe and North America, culminating in the position of Senior Associate in the Energy and Infrastructure Group, Paris.

Subsequent to year-end, Mr. Tore Horvei assumed the role of Chief Operating Officer ("COO") of the Company; this is discussed in further detail in *Section 20: Events Subsequent to November 30, 2006*.

## **11 Settlement of Highland Star Group Dispute**

On April 24, 2006, CIC announced that it had been served with an application for injunctive relief issued in Botswana by the "Highland Star Group" ("HSG") against Meepong Investments, CIC, Meepong Resources, and the original shareholders of Meepong Investments. This proceeding was a continuation of the dispute which was previously disclosed in the information circular of Ophir dated February 1, 2006.

On June 12, 2006, CIC announced that a settlement was reached in the dispute between the HSG and Meepong Investments, CIC, Meepong Resources, and the original shareholders of Meepong Investments. Based on advice furnished by legal counsel, CIC remained confident that the HSG claims were unfounded and without merit both in fact and in law. Nevertheless, the Board of Directors decided that the rapid settlement of this matter was in the best interest of CIC. Without resolution to the dispute, it would be difficult to complete the project financing within CIC's planned timeframe, as counsel had advised CIC that it could take up to 24 months for the dispute to be finally resolved through the Botswana courts. Under the terms of the settlement, CIC paid the HSG a total of US\$18,500,000. This payment was capitalized to exploration properties.

## **12 Critical Accounting Estimates and Accounting Policies**

The consolidated financial statements are prepared by management in accordance with Canadian generally accepted accounting principles.

### *(a) Principles of Consolidation*

These financial statements consolidate the financial statements of all controlled companies. Inter-company transactions and balances have been eliminated on consolidation.

### *(b) Translation of Foreign Currencies*

CIC's exploration subsidiaries are accounted for as integrated foreign operations and are translated into Canadian dollars using the temporal method. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates, while non-monetary items are translated at the exchange rate in effect at the transaction date. Income and expense items are

translated at the exchange rates in effect on the date of the transaction. Exchange gains and losses resulting from the translation of these amounts are included in the consolidated statements of operations.

(c) *Property and Equipment*

Property and equipment are stated at cost and depreciated on a straight-line basis over five years.

(d) *Leasehold Improvements*

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term of five years or their estimated useful lives.

(e) *Mineral Assets*

Mineral assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortization is written off on a unit of production basis over the expected life of the mine.

(f) *Exploration Properties*

CIC considers its exploration costs to have the characteristics of plant and equipment. As such, CIC capitalizes all exploration costs that result in the acquisition and retention of resource properties or an interest therein. The amounts shown for exploration properties represent costs to date and do not necessarily reflect present or future values. If the properties are sold, allowed to lapse or are no longer of interest, accumulated costs are written down. Included in exploration properties are amounts related to expenditures incurred in the pre-operating period. Once a project reaches commercial production, the exploration costs are amortized over the estimated useful life of the producing properties.

The recoverability of the carrying values of the properties is dependent on the ability of CIC to obtain the necessary financing and permits to continue exploration, the establishment of economically recoverable reserves, future profitable production and/or proceeds from the disposition thereof.

(g) *Income Taxes*

CIC accounts for income taxes using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amount and the tax basis of assets and liabilities.

Future tax assets and liabilities are measured using tax rates enacted or substantially enacted and expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the enactment or substantive enactment date.

A valuation allowance is provided to reduce future tax assets to the amount that is more likely than not to be recovered.

(h) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the years. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, exploration properties, valuation allowances of receivables and stock based compensation. Actual results could differ from those estimates.

(i) *Loss per Share*

Loss per share ("EPS") is calculated using the weighted average number of shares outstanding during the period. Diluted EPS data is calculated using the treasury stock method. In applying the treasury stock method, options with an exercise price greater than the average quoted market price of the common shares are not included in the calculation of diluted earnings per share, as the effect is anti-dilutive.

(j) *Cash*

Cash includes those short-term money market instruments which, on acquisition, have a remaining term to maturity at acquisition of three months or less.

(k) Impairment of Long-lived Assets.

Long-lived assets, including property and equipment, mining assets 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 cash 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 recognised by the amount by which the carrying amount of the asset exceeds the fair value of the asset. 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 disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(l) *Stock-based Compensation*

CIC has a rolling ten percent stock option plan and under that plan issues stock options to directors, officers, employees and key consultants from time to time. Options granted may be exercised during a period not exceeding ten years, subject to earlier termination under various circumstances. The options are non-transferable. The exercise price may not be less than the minimum price stipulated by applicable regulators.

CIC uses the Black-Scholes model to estimate a value for these options. This model, and other models which are used to value options, require inputs such as expected volatility, expected life to exercise and interest rates. Changes in any of these inputs could cause a significant change in the stock-based compensation expense charged in a period.

### 13 Disclosure of Outstanding Share Data

The following details the share capital structure as at February 26, 2007. 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	46,305,356	46,305,356
Share Options	April 17, 2014 July 26, 2014 Nov 2, 2014 Dec 22, 2014	\$6.90 \$8.00 \$8.61 \$13.15	2,823,750 850,000 110,000 427,000	4,210,750
Common issueable upon exercise of Warrants	March 23, 2007 March 24, 2007 July 21, 2007 Aug 31, 2008 Dec 8, 2014 Jan 1, 2015 Feb 1, 2015	\$6.90 \$6.90 *\$1.11 \$8.06 \$11.00 \$11.00 \$11.00	1,106,667 218,088 39,000 150,000 400,000 650,000 400,000	2,963,755
Total Fully Diluted number of Shares				53,479,861

\* Exercise prices shown above are in US Dollars (US\$1.00 = CA\$1.11 as a July 21, 2006)

#### *Financing Activities*

On February 13, 2006, Coal Investment Corp. completed a non-brokered private placement financing of 2,666,666 units at \$4.29 (US\$3.75) per unit for gross proceeds of \$11,448,020 (US\$9,999,997.75). Each unit consisted of one common share and one half of one common share purchase warrant. Each whole common share purchase warrant entitled the holder to purchase one common share of Coal Investment Corp. at a price of \$6.90 for a period of one year from the listing date of CIC.

On March 13, 2006, Coal Investment Corp. completed a private placement financing of 7,652,200 subscription receipts at \$6.90 per subscription receipt with a syndicate of underwriters led by Westwind Partners Inc. and TD Securities Inc. (the "Agents"). Gross proceeds of the financing totalled \$52,800,180. Each subscription receipt, subject to certain conditions being met, entitled the holder to acquire one common share of Coal Investment Corp. for no additional consideration. In connection with the financing, Coal Investment Corp. paid to the Agents a cash commission of 6.0% of the total gross proceeds and issued broker warrants entitling the Agents to acquire up to 459,132 common shares of CIC at \$6.90 per share on or before March 24, 2007.

Upon completion of the consolidation of Coal Investment Corp. and Ophir, effective March 14, 2006: (i) the issued and outstanding shares of Coal Investment Corp. and Ophir were exchanged on a one to one basis for common shares of CIC; and (ii) the common share purchase warrants and broker warrants of Coal Investment Corp. were exchanged on a one to one basis for common share purchase warrants and broker warrants, respectively, of CIC.

Subsequent to year-end, the Company announced a bought deal private placement financing which closed on February 23, 2007. The details of this financing are discussed in *Section 20: Events Subsequent to November 30, 2006*.

Proceeds from these financings are intended to be used to conduct further drill testing of Mmamabula, finance a BFS and for management and administrative purposes. The ability to develop Mmamabula will depend on the Company's continued ability to raise necessary equity and/or debt financing and/or enter into joint venture agreements. If the Company is unable to raise or access the required funds, it may seek strategic alternatives to develop the Project. The Company remains confident that it will be able to obtain the necessary financing to develop and operate an integrated mine-mouth power station at the Project.

#### 14 Capital Expenditure on Exploration Properties

##### EXPLORATION PROPERTIES

	March 10 to November 30, 2005	Additions	Year to November 30, 2006
Mmamabula Energy Project (Botswana)	\$3,736,109	\$44,367,198	\$48,103,307

The Company is engaged in the development and operation of the Mmamabula East and Mmamabula South coal properties located in the Mmamabula coalfield. The total amount includes exploration costs capitalised (\$43,878,112) as well as the cost of purchasing 100% shareholding in Meepong Resources (\$4,225,195).

##### MINERAL ASSETS

2006	Balance, beginning of year	Additions	Disposals	Balance, end of year
Mmamabula Mine Development	\$ -	\$ 3,131,931	\$ -	\$ 3,131,931

##### Mmamabula Mine Development

CIC and IPR have reached an Understanding in Principle regarding the development of the Mmamabula coal mine, whereby IPR, through a new holding company to be established, will acquire an indirect 50% interest in Meepong Resources, CIC's Botswana subsidiary which holds the exploration licences for Mmamabula East and South. Final commercial terms are still being negotiated. \$3,131,931 is the value of project development work carried out on the mine project.

## 15 Results of Operations

(in thousands of \$)

### Review of Certain Operating Expenses

	Year to November 30, 2006	Period from March 10, 2005 to November 30, 2005
Administration	2,284	172
Personnel expenses	1,068	152
Foreign exchange profit / (loss)	528	(243)
Listing expenses	89	-
Interest received	1,116	12

CIC is a development stage enterprise and devotes all of its efforts in the development of the Mmamabula East and Mmamabula South coal fields and to the establishment of mine-mouth power stations that will supply electricity to the Southern African region. Planned operations have not yet commenced and operating revenue has not yet been generated.

The loss for the year ended November 30, 2006 was \$2,197,288. The Company recorded a lost of \$0.06 per share (basic and diluted) for the year ended November 30, 2006.

## 16 Summary of Quarterly Results

	Three months to November 30, 2006 (unaudited)	Three months to August 31, 2006 (unaudited)	Three months to May 31, 2006 (unaudited)	Three months to February 28, 2006 (unaudited)	Period from March 10, 2005 to November 30, 2005 (audited)
Total Incomes	\$296,920	\$801,008	\$6,234	\$12,163	\$12,568
Net loss	\$(183,775)	\$(702,445)	\$(871,098)	\$(806,560)	\$(701,024)
Basic and diluted loss per share	\$(0.01)	\$(0.02)	\$(0.04)	\$(0.03)	\$(0.04)

## 17 Financial Condition, Cash Flow, Liquidity and Capital Resources

(in thousands of \$)

### Cash Flow Highlights

	Year to November 30, 2006	Period from March 10, 2005 to November 30, 2005
Operating activities	(1,048)	1,052
Financing activities	68,679	8,482
Investing activities	(45,267)	(3,986)
Beginning cash balance	5,548	-
Net cash for the period	22,363	5,548
Ending cash balance	27,911	5,548

Operating activities utilized \$1,048 of cash primarily due to cost of administration.

Financing activities generated \$68,679 through the issuance of securities through two private placements of Coal Investment Corp. in the reporting period (see item 13 for further details), and the exercise of broker warrants.

Investing activities utilized \$45,267 of cash for the period primarily due to exploration activities on Mmamabula and the purchase of 100% of Meepong Resources. This includes US\$18,500,000 paid to HSG.

The Company estimates total expenditure over the next twelve months to be less than \$40,000,000. With the current cash and warrants priced at \$6.90 which are due to expire before the end of March 2007, as well as the private placement of a minimum of 1,666,667 common shares at a price of CDN\$15.00 per share in February 2007, the Company has sufficient liquidity to sustain development operations for a minimum of twelve months from the date hereof and to financial close; "Financial Close" being the time at which the execution of definitive project loan agreements and the satisfaction and/or waiver of all conditions precedent to the advance of funds thereunder.

Thereafter, working capital and capital expenditure for the operations will be financed out of limited recourse project financing from senior lenders (and equity from equity holders) and thereafter from the profits of the project companies.

## 18 Summary of Selected Annual Results

(in thousands of \$)

	Year to November 30, 2006	Period from March 10, 2005 to November 30, 2005
Other income	1,116	13
Net loss	(2,142)	(696)
Basic and diluted loss per share	\$(0.06)	\$(0.04)
Total Assets	79,886	9,333
Total Liabilities	3,498	1,552
Dividends declared	-	-
Foreign Exchange gain / (loss)	528	(243)

## 19 Related Party Transactions

Included in the consolidated financial statements are payments made to companies under the control or significant influence of officers and directors of CIC. 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:

	Year to November 30, 2006	Period from March 10, 2005 to November 30, 2005
Administrative services <sup>a</sup>	\$267,626	\$137,464
Consideration paid and accrued to original shareholders of MRPL. <sup>b</sup>	\$4,225,195	\$580,000

a. CIC carries on business outside Canada. CIC purchases administrative, advisory and investor relations services from a company that shares a common director to assist in fulfilling its ongoing obligations as a reporting issuer listed for trading on a stock exchange in Canada.

b. The consideration paid to acquire 100% MRPL from the original shareholders in terms of the Shareholders agreement.

Coal Investment Corp. Services (Proprietary) Limited shared offices with AfriOre (Proprietary) Limited, the holding companies of both have a common director.

On August 1, 2005, Coal Investment Corp. entered into an administrative service agreement (the "Agreement") with Tau Capital Corp. ("Tau"); the obligations of such Agreement were adopted by CIC. The

Agreement has an initial term of three years, terminating on July 31, 2008, subject to further renewal by the parties to the Agreement. The terms of the Agreement required Coal Investment Corp. to pay Tau a monthly service fee of US\$18,000 until the listing of the Company's shares on a Canadian stock exchange. Subsequent to listing of CIC's shares on the TSX on March 23, 2006, the Agreement provides that Tau shall be paid a monthly service fee of US\$23,000 for administration, advisory and investor relations services. This agreement can be terminated by CIC giving 180 days written notice. For the twelve month period ended November 30, 2006, fees paid to Tau for administrative services were \$267,626 (November 2005 : \$137,464).

## 20 Events Subsequent to November 30, 2006

### *Financing*

On February 23, 2007, CIC announced the closing of a bought deal private placement, originally announced on February 8, 2007, with a syndicate of underwriters led by Westwind Partners Inc., along with Canaccord Capital Corp. (the "Underwriters"). The Underwriters purchased, on a bought deal private placement basis, 1,666,667 common shares of the Company at a price of CDN\$15.00 per share, for aggregate gross proceeds of approximately CDN\$25,000,000, along with an over-allotment of an additional 533,333 common shares at the issue price for total gross proceeds of CDN\$33,000,000. The Company plans to use the net proceeds of this financing for general corporate purposes.

### *Acquisition of SAD-ELEC*

On December 20, 2006, CIC announced the acquisition of SAD-ELEC via a binding Sale of Business Agreement. SAD-ELEC was a leading consultancy group in the Southern African energy sector, with extensive experience in providing energy-related advisory services to utilities, governments, major energy consumers, fuel suppliers and financiers. SAD-ELEC has served as a strategic advisor to CIC since August, 2005, focusing on legal, regulatory and utility issues, power market analysis, commercial arrangements, and transmission integration for Mmamabula into the Botswana and South African power grids.

Pursuant to the binding Sale of Business Agreement, a wholly-owned subsidiary of CIC agreed to purchase SAD-ELEC's "Core Business", effective January 1, 2007. This includes SAD-ELEC's consulting, advisory and management business, along with the services of certain senior executives, including Tore Horvei, Mike Page, Stefan Regardh, Les K ugel and Cosmas Gutu. The senior executives now manage key aspects of Mmamabula, in particular related to the planned implementation and operations phases. Certain of these executives, plus other SAD-ELEC personnel, will be temporarily seconded to the completion of existing contractual obligations of SAD-ELEC. Commercial terms include a cash payment of R6.5 million (approximately CDN\$1.07 million) and the issuance of 130,000 common shares and 100,000 common share purchase warrants of CIC. Each warrant will entitle the holder to purchase one common share of CIC at CDN\$11.00 until January 1, 2009. The SAD-ELEC executives are leaders in their field, and bring to the Company in-depth knowledge and experience of the Global and Southern African electricity and energy industries and regulatory environment, as well as established relationships with key industry stakeholders in Southern Africa. SAD-ELEC executives have enhanced the depth of management and professional expertise within the Company.

Effective January 1, 2007, Mr. Tore Horvei, the former Chief Executive of SAD-ELEC, assumed the role of COO of CIC.

### *Mmamabula Mine Development*

On December 7, 2006 CIC announced that CIC and IPR reached an Understanding in Principle regarding the development of the Mmamabula coal mine, whereby IPR, through a new holding company to be established, will acquire an indirect 50% interest in Meepong Resources, CIC's Botswana subsidiary which holds the exploration licences for Mmamabula East and South. Final commercial terms are still being negotiated and a definitive agreement between CIC and IPR with respect to the coal mine is expected to be finalized in Q2/07.

### *Appointment of Mining Team & Selection of Preferred Contract Miners*

On December 7, 2006 CIC announced the appointment of a Mining Team with extensive experience in the building and operating of large, underground coal mines utilizing continuous miners and other mining methods to manage the development and operation of the coal mine. The Mining Team is headed by Mr. Wynand Marais, who will assume the position of CEO of a separate Operating and Managing company, the common shares of which will be owned equally by CIC and IPR. Working with Mr. Marais will be Mr. J.R. Nel, Dr. J.N. van der Merwe and Mr. C.H.B. van Eeden.

It is envisaged that the coal mines will be operated on a contract basis and managed by the Mining Team. A number of contract miners with experience in large underground coal mines in Africa were shortlisted and on December 7, 2006 CIC announced that Grinaker-LTA was selected as the preferred contractor for the Mmamabula coal mine underground operation. Grinaker-LTA is a multi-disciplinary construction and engineering group based in South Africa and focused on infrastructure, energy and mining in Africa. Grinaker-LTA employs over 18,000 people and has an annual turnover of US\$1 billion. The Group is 75% owned by Aveng Limited, a public company listed on the Johannesburg Securities Exchange and 25% by a TisoGroup led Black Economic Empowerment consortium.

### *Directors*

In December, 2006 Mr. Elvidge Mhlauli resigned as a director of CIC to pursue other interests.

## **21 Risks**

The operations of CIC are high-risk due to the scope, nature and stage of development of the Mmamabula Energy Project. The following risk factors could materially affect CIC's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to CIC. CIC may face additional risks and uncertainties other than those listed below, including, risks and uncertainties that are unknown to CIC or risks and uncertainties that CIC now believes to be unimportant, which could have a material adverse effect on the business of CIC. If any of the following risks actually occur, the business, financial condition and/or results of operations of CIC could be negatively affected.

CIC is currently engaged in the potential development of a single substantial integrated mine-mouth coal-fired power plant, the Mmamabula Energy Project. Due to its envisaged scale, the Project is dependent on the ability of CIC to conclude its joint venture arrangements with IPR (which will be integral to negotiating and obtaining the requisite project funding, putting into place arrangements for the operation and maintenance of the power plant and concluding a PPA with Eskom), to obtain the requisite project financing on favourable terms and on a timely basis, to conclude all other necessary agreements, to obtain all necessary licences, consents, approvals and concessions from the Government of Botswana, and, ultimately, to operate the mine and the power plant in order to produce the electricity required to be delivered pursuant to the PPA with Eskom. Eskom is the only potential power purchaser in the region with the capacity to purchase all of the power produced by the Project. The loss of certain contracts could have a material adverse effect on CIC's operations and business. The ability to secure such contracts in the

first instance is beyond the control of CIC and, furthermore, due to the planned scale of operations, CIC, whether directly or indirectly, is dependent on Eskom for the conclusion of a PPA.

Although CIC has entered into a number of memoranda of understanding and heads of agreement concerning the development of the Project (including a memorandum of understanding with Eskom and a Heads of Agreement with IPR), if CIC fails to enter into all requisite definitive agreements (including definitive agreements with IPR), it will be unable to proceed with the development of the Project.

In order to finalize the PPAs with Eskom and BPC and to obtain financing for the Project, certain concessions may need to be obtained from the Government of Botswana, including tax concessions and the extension of the prescribed term of the mining licences to be applied for in respect of the Mmamabula East and Mmamabula South properties such that the licences will terminate no earlier than the expiry of the PPAs. Failure to obtain the foregoing concessions may have a material adverse impact on the viability and possible profitability of the Project and on CIC's financial condition.

In order to obtain project financing, a fixed price EPC contract will be required to be entered into with a reputable firm. Due to increased worldwide demand for the construction of power plants, the EPC market is very competitive, the services of EPC contractors are in short supply and the costs of EPC services have been increasing. As a result, CIC may not be able to conclude an EPC contract on favourable terms. In order to proceed with obtaining funding, CIC will be required to negotiate the terms of such EPC contract in advance and it is likely that the fixed price thereunder will be guaranteed for a limited period of time. If CIC is unable to reach Financial Close within such period, the fixed price of such EPC contract may have to be re-negotiated, which would likely lead to delays and increased costs, which may, in turn, adversely affect the ability to proceed with the development of the Project. Lack of capacity in the EPC market may also lead to delays in the completion of contracts, achieving Financial Close and/or in the commencement of commercial power production. In order to secure EPC services, CIC may also have to pay non-refundable deposits in respect of the purchase of long lead-time equipment. In the event that CIC is not able to reach Financial Close in the expected time frame, such deposits may be lost, which would have a negative impact on CIC's financial condition.

The ownership and operation of the proposed power station is dependent on the ability of Meepong Energy to obtain a Generation Licence, which will be subject to the fulfillment of a number of conditions, including obtaining the necessary equity and debt financing for the power plant, changes in regulations or relevant legislation and the discretion of government authorities. The inability to obtain a Generation Licence would have a material adverse effect on CIC's operations and business. If such a Generation Licence is obtained, CIC's profits, if any, will be related to the price of electricity that is supplied to Eskom and BPC under PPAs. The price and amount of power that may be sold under these PPAs is currently under negotiation and, as such, is uncertain as at the date hereof. The failure to conclude a PPA with Eskom on favourable terms could result in the Project being commercially unfeasible.

For the proposed electricity power station to deliver electric power, it will be necessary to construct and operate new power transmission lines to connect to the Eskom and 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 can also not guarantee that Eskom will be able to construct the necessary power transmission infrastructure in South Africa in time for the Project to commence operations as envisaged. 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's financial results.

The ability to generate power and to sell the power to Eskom (and to a lesser extent BPC) is dependent on factors beyond the control of CIC, including, but not limited to, the completion of the development of the Project within budget and on schedule. Anything which adversely affects price and volume (of either coal or power) and the development of the Project could adversely affect the business, financial condition or results of operations of CIC.

Credit support may be required from the Government of South Africa and the Government of Botswana in order to support the financial obligations of each of Eskom and BPC under their respective PPAs. The inability to obtain such credit support could adversely affect the ability to secure funding for the Mmamabula Energy Project.

Substantial expenditures are required to establish proven and probable reserves through additional drilling to determine the optimal extraction method for the coal seams, the beneficiation process needed to achieve the requisite coal quality and, in the case of new properties, to construct mining and processing facilities. There is no assurance that the BFS will be positive and support a decision to develop the Project.

Development projects have no operating history upon which to base estimates of future cash operating costs. Particularly for development projects, 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.

Establishment of a coal reserve and development of a coal mine does not assure a profit on the investment or recovery of costs. 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. These conditions include delays in obtaining governmental approvals, licences or consents, or other geological, engineering and mechanical conditions. While diligent mine supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

The 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 mine development and operations. Unknown factors with respect to mining conditions and power generation activities are also involved. Existing and future environmental laws may cause significant additional expenses, capital expenditures, restrictions and delays in the development and operation of the Project, the extent of which cannot be predicted and which may well be beyond CIC'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.

Although CIC 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 could incur significant costs that could have a material adverse effect upon its financial condition.

Coal mining, coal processing and power production activities of the scale envisaged can be demanding on water resources. Sulphur content 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 Project.

CIC's revenue from operations is expected to be received in South African Rand, while a material portion of its operating expenses and a material portion of its ongoing capital equipment replacement costs are expected to be incurred predominantly in foreign currencies. Accordingly, foreign currency fluctuations may adversely affect CIC's financial position and operating results. CIC does not currently engage in foreign currency hedging activities for operational purposes or otherwise. It is possible that significantly higher inflation in the future in Botswana, without a concurrent devaluation of the Pula against the South African Rand, and/or the devaluation of the South African Rand against foreign currencies could have a material adverse effect upon CIC's results of operations and financial condition.

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\$ market, there is a risk that sufficient Rand to finance the Project may not be available and that CIC may have to avail itself of alternative funding structures which may increase transaction costs and add additional complexity and attendant risk to the funding of the Project.

The development of CIC's properties and the construction of mining facilities and commencement of mining operations and the construction of power generation facilities and power transmission and integration infrastructure and the commencement of power production activities will require substantial additional financing. There can be no assurance that financing for the 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 or production on the Project and will have a material adverse effect on CIC's business, financial condition and results of operations. The only current source of funds available to CIC is through the issuance of equity or debt, the monetization of any future development fee that CIC is or may become entitled to or the entering into of joint venture agreements (such as those contemplated to be entered into with IPR).

CIC's operations and its ability to hold various mineral rights require licences, permits and authorizations and, in some cases, renewals of existing licences, permits and authorizations from various governmental and quasi-governmental authorities. CIC'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'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. Additionally, the Project will have significant abandonment and site restoration obligations.

## **22 Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding

public disclosure. As at the end of the period covered by this MD&A, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* of the Canadian Securities Administrators) and other reports filed or submitted under Canadian securities laws is recorded, processed, analyzed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### **23 Outlook**

During fiscal 2007, CIC intends to continue the development of the Project with the intention of reaching Financial Close and commencing construction of Phase One by Q1/08. In particular, during fiscal 2007 the Company intends to complete all studies and plans required in connection with the BFS (including EIA studies, a comprehensive mine plan, a water resource study and a comprehensive financial model), obtain all requisite environmental, water supply, mining and generation licences and permits, negotiate and enter into the PPAs with Eskom and BPC and negotiate and enter into an EPC contract.

### **24 Additional Information**

Additional information relating to CIC, including the Company's annual information form for the financial year ended November 30, 2006, has been filed on SEDAR and may be accessed at [www.sedar.com](http://www.sedar.com).

Directors and Officers of CIC Energy Corp.

The board of directors of CIC consists of the following individuals: Sandra Cowan, Francis Crothers, Mandla Gantsho, Reuel Khoza, Gregory Kinross, Deenadayalen Konar, Blackie Marole, and Warren Newfield. Reuel Khoza and Warren Newfield serve as Co-Chairs of the board of directors.

Senior management of CIC includes: Gregory Kinross as President and Chief Executive Officer, Sue Myburgh as Chief Financial Officer, and Tore Horvei as Chief Operating Officer.

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Stock Exchange Listings  
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BSE name: CIC ENERGY

Listed in Standard & Poor's  
Corporation Records

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