

20 October 2010

The Manager
Company Announcements
Australian Securities Exchange Limited
Level 6, 20 Bridge Street
Sydney NSW 2000

By e-lodgement

Annual Report and Notice of Annual General Meeting

Please find attached the Company's Annual Report and Notice of Annual General Meeting.

Yours faithfully



Peter Landau

Executive Director

South Africa

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About Continental Coal Limited

Continental Coal Limited (ASX: CCC) is an established South African thermal coal producer. Continental has a portfolio of producing and advanced coal projects located in South Africa's major coal fields. Following the commencement of production at the Vlakvarkfontein coal mine in May 2010, and its acquisition of Mashala Resources in October 2010, Continental is targeting production from its portfolio of predominantly export thermal coal mines of 10Mtpa ROM by 2015. Continental was formed to take advantage of the robust domestic and global demand for coal, with particular focus on Southern Africa.



Continental Coal Ltd

ANNUAL REPORT

for the year ended 30 June 2010

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Coal stockpile at Vlakvarkfontein on 18 June 2010

CORPORATE DIRECTORY

Directors

Andrew MACAULAY
(Executive Chairman)

Peter LANDAU
(Executive Director)

Bruce BUTHELEZI
(Executive Director)

Jason BREWER
(Executive Director) – appointed 16 December 2009

Manuel LAMBOLEY
(Non-Executive Director)

Simon DURACK – resigned 16 December 2009
(Non-Executive Director)

Company Secretary

Anthony EASTMAN
(Joint Company Secretary)

Jane FLEGG
(Joint Company Secretary)

Registered Office

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Country of Incorporation

Australia

Auditors

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SUBIACO WA 6008
Telephone: (08) 6382 4600
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Share Registry

Computershare Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
PERTH WA 6000
Telephone: (08) 9323 2000
Facsimile: (08) 9323 2033

Home Exchange

Australian Stock Exchange Limited
Exchange Plaza
2 The Esplanade
PERTH WA 6000

ASX Code: CCC

EXECUTIVE DIRECTOR'S REPORT

Dear Shareholder,

On behalf of the Board of Directors of Continental Coal Limited I am pleased to report on the Company's activities during the 2009/2010 financial year.

The Company's strategy of aggressive asset acquisition and development to take advantage of the global demand for coal, has been highly successful culminating in its first producing coal mine at Vlakvarkfontein in May this year.

Following the commencement of production at the Vlakvarkfontein coal mine, Continental concluded the final agreements in September 2010 to acquire unlisted South African coal production company Mashala Resources. The acquisition provides Continental with immediate export coal production from the Ferreira open cast mine, Richards Bay Coal Terminal (RBCT) allocation and Transnet rail contracts in place and a broad project portfolio with a further five coal projects with the potential to be developed into production by 2015.

The Board considers the Mashala acquisition to be a Company maker in so far as providing an outstanding platform to grow far beyond its current operations and to deliver superior returns to shareholders.

The acquisitions have been funded through a series of successful debt and equity capital raisings securing in excess of \$100m for Continental.

In addition the Company entered into a coal off-take and funding agreement with EDF Trading, a leader in the international wholesale energy markets and a wholly-owned subsidiary of EDF S.A., a leading player in the energy industry. Having EDF as a strategic partner has assisted Continental in securing additional market and industry recognition which also benefits shareholders.

During the year the Board has made several key executive appointments as the Company has transitioned towards becoming an established coal producer. Lodewyk 'Don' Turvey was appointed as Chief Executive Officer, Mike Nell as Chief Operations Officer and Jason Brewer as a Director to the Board. The appointment of these highly experienced mining professionals will be complemented with the integration of Mashala resources executive management team in the coming months.

The Board joins me in thanking you for your support during the past year as a shareholder of Continental and we look forward to a successful year ahead.



PETER LANDAU

Executive Director

DIRECTOR'S REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the "Group") consisting of Continental Coal Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010.

Directors

The names of the directors in office and at any time during, or since the end of, the year are:

| | | |
|--------------------|-----------|------------------|
| Mr Andrew Macaulay | | |
| Mr Peter Landau | | |
| Mr Bruce Buthelezi | | |
| Mr Jason Brewer | appointed | 16 December 2009 |
| Mr Manuel Lamboley | | |
| Mr Simon Durack | resigned | 16 December 2009 |

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Company Secretary

The following persons held the position of joint company secretary at the date of this report;

Mr Anthony Eastman
Ms Jane Flegg

Principal Activities

The principal activity of the group during the financial year was investment in the mining resource industry. During the year the Group focused on investing in highly prospective coal resources in South Africa.

Operating Results

The consolidated loss of the group for the financial year after providing for income tax amounted to \$27,461,478 (2009: \$14,905,526).

Dividends Paid or Recommended

The directors recommend that no dividend be paid for the year ended 30 June 2010, nor have any amounts been paid or declared by way of dividend since the end of the previous financial year.

DIRECTOR'S REPORT

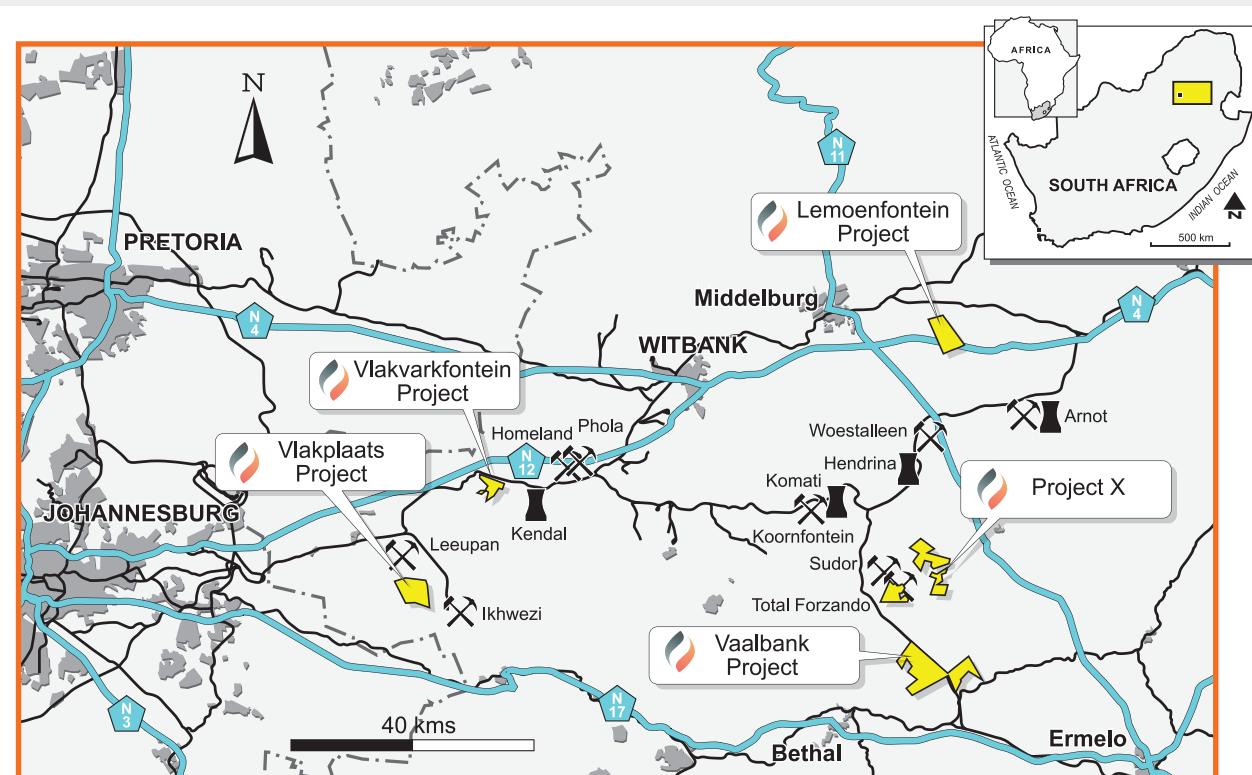
Review of Operations

This financial year has been a highly successful one for the Group with a number of major operational milestones achieved by the Group in line with the Group's policy of aggressive asset acquisition and development to take advantage of the global demand for coal, including further strengthening of the board and executive management team in South Africa, the commencement of coal production and sales at Vlakvarkfontein, the advancing of its other projects through exploration and technical evaluation and securing key offtake agreements for the Group's planned production of export thermal coal.

During the year the Group made several key executive appointments. In May 2010, the Group appointed Lodewyk 'Don' Turvey, as its inaugural Chief Executive Officer and in January 2010 the Group appointed Mike Nell as Chief Operations Officer. The appointment of these highly experienced coal mining professionals was a significant step by the Group in ensuring it had the relevant experience and management capabilities to successfully advance the development of its project portfolio. Both senior executives possess significant coal mining industry experience in South Africa, proven track records and are great assets for the Group. In December 2009 the Group also appointed Jason Brewer to the Board. His experience in the natural resources sector and in investment banking has greatly assisted the Group in its financing activities over the financial year.

The Group has rapidly advanced its existing project portfolio over the financial year, culminating with first coal production at the Vlakvarkfontein Coal Project in May 2010. The Group believes that the combined portfolio of assets sets the Group apart in the junior coal sector in South Africa, providing an outstanding platform to grow the Group far beyond its current operations and to deliver superior returns to shareholders and offering significant opportunities for the combined groups employees and key stakeholders.

Location of Existing Projects



DIRECTOR'S REPORT

First Coal Production at Vlakvarkfontein Coal Mine



TMS Mining undertaking topsoil pre-stripping in the box-cut area at the Vlakvarkfontein Coal Mine



Mining activities underway at Vlakvarkfontein

In February 2010, following a highly competitive bid process, the Group appointed South African coal mining contractor Trollope Mining Services "TMS" as the mining contractor at the Vlakvarkfontein coal mine. Under the terms of an initial 3 year contract mining agreement TMS is responsible for the management of the site and all mining and crushing activities, including the delivery of 100,000 tonnes of –run of mine coal per month from the No. 4 and No 2 seams. Site activities subsequently commenced in February following the mobilisation to site by TMS on 15 February.

Top soil stripping activities in the box cut area continued throughout February and March 2010 with the first blasting activities commencing in April 2010.



Pre-split drilling activities underway at Vlakvarkfontein



The first production blast at Vlakvarkfontein



The first coal being loaded at Vlakvarkfontein

DIRECTOR'S REPORT

The first coal production blast occurred at 1.00pm (SA time) on Thursday 27 May 2010.

Mine Operations Performance

In the financial year, coal production at Vlakvarkfontein of 63,877 tonnes was mined solely from the No 4 Seam. All coal was stockpiled at the run of mine stockpile on site.

Production statistics at Vlakvarkfontein for the financial year are summarised in the table below:

| | Jan 10 | Feb 10 | Mar 10 | Apr 10 | May 10 | Jun 10 | Year ended 30 June 2010 |
|--------------------|----------|--------------|----------------|----------------|----------------|----------------|----------------------------|
| Top-Soil (M 3) | - | 7,850 | 42,817 | 27,766 | 24,441 | 13,598 | 116,472 |
| Sub-Soil (M 3) | - | - | 95,993 | 106,153 | 113,436 | 60,811 | 376,393 |
| Total Softs | - | 7,850 | 138,810 | 133,919 | 137,877 | 74,409 | 492,865 |
| Hards (+4 Seam) | - | - | 15,366 | 100,486 | 82,704 | 153,572 | 352,128 |
| Hards (+2 Seam) | - | - | - | - | - | - | - |
| Total Hards | - | - | 15,366 | 100,486 | 82,704 | 153,572 | 352,128 |
| 4 Seam Coal | - | - | - | - | 6,813 | 57,064 | 63,877 |
| 2 Seam Coal | - | - | - | - | - | - | - |
| Total Coal | - | - | - | - | 6,813 | 57,064 | 63,877 |
| Summary | | | | | | | - |
| Total Softs | - | 7,850 | 138,810 | 133,919 | 137,877 | 74,409 | 492,865 |
| Total Hards | - | - | 15,366 | 100,486 | 82,704 | 153,572 | 352,128 |
| Total Coal | - | - | - | - | 6,813 | 57,064 | 63,877 |

First Sales Contracts For Vlakvarkfontein

In June 2010, the Group executed its first binding sales contracts for the sale of domestic quality coal produced from the Vlakvarkfontein Coal Mine.

The sales agreements were executed on 21 June 2010 for the sale of run-of mine coal from the Vlakvarkfontein Coal Mine. The contracts were entered into with an existing established and nearby major coal mining operation and covered the first 100,000 tonnes of run-of mine coal. The coal is anticipated to be sold to the domestic coal market in South Africa.

The key terms of the sales agreement include:

| | |
|--------------------|--|
| Material: | Run-of-Mine (ROM) Coal |
| Quantity: | Approximately 100,000mt |
| Deliveries: | June-July 2010 |
| Quality: | Typically on an ISO "air dry" basis: Calorific value 22MJ/kg min. Volatiles 20% min. Ash 27% max. |

The coal is sold free-on-truck and transported to the buyers nearby operations for final weight determination and sampling and analysis.

DIRECTOR'S REPORT

Under the sales agreement the Group was able to receive an up-front payment of ZAR9 million on the first 100,000 tonnes, with the balance due on subsequent progressive deliveries.



Extraction 2-seam coal from Vlakvarkfontein



Vlakvarkfontein coal being prepared for domestic market

Export Coal Off-take Agreements

In the financial year, the Group announced that it had signed a Heads of Agreement with EDF Trading under which EDF Trading would acquire the Group's production of export thermal coal from the Vlakvarkfontein, Vaalbank and Project X mines for a period of 20 years at a market API4 benchmark price FOB Richards Bay.

Under the terms of the Heads of Agreement EDF Trading also agreed to provide the Group with a US\$20 million "coal loan" through an advance purchase of forecast thermal coal exports.

EDF Trading is a leader in the international wholesale energy markets. It is a wholly-owned subsidiary of EDF S.A., and with its own portfolio of assets, combined with those of the EDF Group businesses, it has the ability to source, supply, transport, store, blend and convert physical commodities across the wholesale energy markets.

Formal documentation of the Heads of Agreement was completed subsequent to year end.

Vanmag Iron Ore Project, South Africa

Continental entered into a sales agreement in the prior period in respect of the disposal of its interest in the Vanmag Iron Ore Project in South Africa. The agreement has been extended subject to completion of the necessary regulatory approvals.

The key terms of the Share Sale Agreement for Continental are US\$10m cash (US\$1m deposit with the balance on completion of due diligence and regulatory approvals).

As at the date of this report, settlement is scheduled for Mid October 2010.



Crushing, screening and stockpiling of coal at Continental's Vlakvarkfontein Mine

DIRECTOR'S REPORT

Financial Position

The net assets of the group have increased by \$14,999,065 from \$25,226,107 at 30 June 2009 to \$40,225,172 in 2010. This increase has largely resulted from the following factors:-

- Accelerated purchases of strategic near term coal project acquisitions;
- First Coal Production at Vlakvarkfontein Coal Mine; and
- Exploration and development activities at Project x and Vaalbank Coal Projects.

The directors believe the group is in a strong and stable financial position to expand and grow its current operations.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent Group occurred during the financial year:

An increase in contributed equity of \$46,674,739 (from \$54,154,598 to \$100,829,337) as a result of:-

| | |
|--|-------------|
| Placement issue of 96,000,000 ordinary fully paid shares at 5 cents each | 4,800,000 |
| Issue of 20,000,000 ordinary fully paid shares at 4.3 cents each as facilitation fee for coal asset acquisitions | 860,000 |
| Placement issue of 65,000,000 ordinary fully paid shares at 5 cents each | 3,250,000 |
| Issue of 180,000,000 ordinary fully paid shares at 6.3 cents each as milestone shares for the acquisition of 74% Continental Coal Ltd SA | 11,340,000 |
| Conversion of Debt by issue of 78,124,266 ordinary fully paid shares at 5 cents each | 3,902,213 |
| Placement issue of 133,333,333 ordinary fully paid shares at 6 cents each | 8,000,000 |
| Issue of 11,000,000 ordinary fully paid shares to consultants at 5.9 cents each in consideration for services provided to the group | 644,000 |
| Placement issue of 8,333,332 ordinary fully paid shares at 6 cents each | 500,000 |
| Conversion of \$6.8m debt facility by issue of 136,000,000 shares at 5 cents each | 6,800,000 |
| Issue of 10,000,000 ordinary fully paid shares to consultants at 5 cents each in consideration for services provided to the group | 500,000 |
| Placement issue of 60,745,000 ordinary fully paid shares at 5 cents each | 3,037,250 |
| Conversion of Debt by issue of 108,670,809 ordinary fully paid shares at an average of 4.1 cents each | 3,762,188 |
| Placement issue of 22,700,000 ordinary fully paid shares at 5 cents each | 1,135,000 |
| Less share issue costs | (1,775,911) |
| | 46,674,739 |

Matters Subsequent to the End of the Financial Year

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the group, the results of those operations, or the state of affairs of the economic entity in future financial years except as follows:-

- Successful completion of a placement of 400m ordinary fully paid shares at an issue price of 5 cents to sophisticated and institutional investors, raising \$22m before costs, to assist in the funding of the acquisition costs of Mashala, Penumbra underground mine and development costs and working capital. The placement was completed in two tranches (200m shares up front to raise \$11m) with the balance (200m shares) approved by shareholders at the Group's general meeting on 14 July 2010;

DIRECTOR'S REPORT

- Successful completion of a Share Purchase Plan of 290,909,090 ordinary fully paid shares at an issue price of 5.5 cents, raising \$16m before costs, to assist in the funding of the acquisition costs of Mashala, Penumbra underground mine and development costs and working capital;
- The Group has executed binding documentation for a 20 year coal off-take agreement and a US\$20 million financing facility with EDF Trading;
- The Group announced its plans to raise a further A\$25m through a convertible note to be completed on or before early October 2010;
- The Group's 74% subsidiary Continental Coal Limited, executed a Share sale and option agreement to acquire 100% of the shares of unlisted South African thermal coal mining and export coal producing group Mashala Resources ("Mashala") on 16 September 2010. The initial shareholding is 64.1% upon payment of US\$35m with an option for the balance of 35.9% shareholding within the next twelve months. Going forward as Mashala has now become a subsidiary of Continental Coal Limited in South Africa it will be accounted for in a Business combination;
- On 25 August the group's subsidiary, Continental Coal Limited in South Africa paid Rand 40m (AUD\$6,120,000) in respect to the outstanding purchase consideration for their 50% share in Ntshovelo Mining Resources (Pty) Limited and a 60% economic interest in the Vlakvarkfontein Coal Mine. Going forward as Ntshovelo has now become a subsidiary of Continental Coal Limited in South Africa it will be accounted for in a Business combination.

These financing initiatives will be used to fund future mine development and working capital to significantly enhance the Group's portfolio of South African production assets and to complete the acquisition of Mashala Resources.

The Group considers the Mashala acquisition to be a Group maker and will further strengthen its position as an established and aggressively growing South African thermal coal producer and exporter.

The acquisition of Mashala will significantly increase the Group's resources as set out below, transforming the Group into a multi-mine operator and substantially enhance its growth and earnings potential bringing enhanced returns for shareholders.

Key aspects of the acquisition include:-

Immediate export production of 500,000tpa from Ferreira opencast mine

- Development of the fully permitted Penumbra underground mine into a planned 840,000tpa run-of-mine operation to commence in the near future;
- Project portfolio grows to two existing mining operations, two mines to be brought into production over the next 12 months and a further five projects with the potential to be developed into production by 2015;
- An exploration division with 6 drill rigs and support equipment ;
- Synergies of Continental's Vaalbank and Project X projects with Mashala's contiguous De Wittekrans and Knapdaar projects provide significant capital cost savings of approx A\$30m and creates a highly strategic asset with approx 424Mt of total in situ resources;
- A strengthened executive and operational management team with the integration of all Mashala's key management into Continental's broadened management structure; and
- Acquisition cost of US\$35m up-front for a majority 62% interest (balance of 38% interest in cash or shares within 12 months) represents a significant value proposition at A\$0.17/resource

The acquisition now only remains subject to receipt of all necessary South African regulatory approvals. This is expected to occur by early October 2010.

DIRECTOR'S REPORT

Post Mashala Acquisition Project Summary

| Project | Interest | Gross In Situ Resource Tonnes(Mt) | | | Production (Mtpa) | Mine Life years | Coal Product | First Production |
|------------------------|----------|-----------------------------------|-----------|------------|-------------------|-----------------|-----------------|------------------|
| | | Inferred | Indicated | Measured | | | | |
| Vlakvarkfontein | 60% | - | - | 17 | 1.2 | 10 - 15 | Domestic | Current |
| Ferreira | 100% | - | - | 3 | 0.7 | 1 - 3 | Export/Domestic | Current |
| Penumbra | 100% | 3 | 14 | 8 | 0.9 | 10 - 20 | Export/Domestic | 2011 |
| Vaalbank | 75% | - | - | 54 | 2.4 | 20 | Export/Domestic | 2011 |
| Project X | 70% | - | - | 25 | 1.8 | 15 - 20 | Export/Domestic | 2012 |
| De Wittekrans | 100% | 157 | 37 | 12 | 3.6 | 30 | Export/Domestic | 2012 |
| Vlakplaats | 100%* | 122 | - | - | 1.8 | 30 | Export/Domestic | 2012 |
| Knapdaar | 100% | 139 | - | - | 3.6 | 30 | Domestic | 2013 |
| Leiden | 100% | 12 | 2 | 4 | 0.7 | 15 - 20 | Export/Domestic | 2013 |
| Mooifontein | 100% | - | - | 3 | 0.6 | 3 - 5 | Export/Domestic | 2014 |
| Wesselton II | 100% | 11 | 5 | 4 | 1.2 | 10 - 15 | Low Volatile | Market |
| TOTAL | | 444 | 58 | 130 | 18.5 | | | |

* Possible option to acquire 100%

Future Developments, Prospects and Business Strategies

To further improve the group's profit and maximise shareholders wealth, the following developments are intended to be implemented in the near future;

- (i) The Group will continue to expand its coal interests in South Africa. It has established its first operating coal mine, namely Vlakvarkfontein, and has at the date of this report entered into a binding heads of agreement to acquire 100% of the shares in unlisted South African mining and export coal producing group Mashala Resources; and
- (ii) The Group will develop these investments to production through its South African subsidiary Continental Coal Ltd.

These investment opportunities, together with the current strategy of continuous improvement and an adherence to quality control in existing markets, are expected to assist in the achievement of the group's medium-term goal of investing in highly prospective coal resources in South Africa, with early cash flow to fund its ongoing financial requirements and minimum equity dilution.

Environmental Issues

The Directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report annual greenhouse gas emissions and energy use. The directors have assessed that there are no current reporting requirements, but may be required to do so in the future.

DIRECTOR'S REPORT

Information on Directors

| Mr Peter Landau | Executive Director |
|---|--|
| Qualifications | Bachelor of Law, Bachelor of Commerce. |
| Experience | Mr Landau is a corporate lawyer and corporate advisor, providing general corporate, capital raising, transaction and strategic advice to numerous ASX listed and unlisted companies. Mr Landau has project managed a significant number of mining exploration and development transactions around the world including capital raisings, M & A, joint ventures and financings. Mr Landau is a director of a number of ASX listed companies with particular focus on mining resource and oil and gas exploration and development on the African Continent. |
| Interest in shares and options | Mr Landau holds no shares or options in the Group |
| Special Responsibilities | Mr Landau is Chairman of the Continental Coal Audit Committee. |
| Directorships held in other listed entities | Range Resources Limited From: 8 November 2005 Nkwe Platinum Limited From: 14 September 2006 Cape Lambert Iron Ore Limited From: 15 May 2007 To: 17 June 2009 BioProspect Limited From: 29 May 2007 To: 24 November 2008 |
| Mr Andrew Macaulay | Executive Chairman |
| Qualifications | B.Sc |
| Experience | Mr Macaulay has been involved in the African oil & gas and natural resource sector since the 1980's. He was previously an executive with HSBC Bank. He is a founding director of Continental Coal Ltd (SA). |
| Interest in shares and options | Mr Macaulay holds no shares or options in the Group. |
| Directorships held in other listed entities | During the past three years, Mr Macaulay has not served as a director of any other companies listed on the Australian Stock Exchange. |
| Mr Bruce Buthelezi | Executive Director |
| Qualifications | Dip. Industrial Engineering |
| Experience | Mr Buthelezi has held senior management positions in the oil & gas and financial services sectors. He was strategic advisor to TSX listed coal junior, Homeland Energy Group with coal operations in South Africa. He is a founding director of Continental Coal Ltd (SA). |
| Interest in shares and options | Mr Buthelezi holds no shares or options in the Group. |
| Directorships held in other listed entities | During the past three years, Mr Buthelezi has not served as a director of any other companies listed on the Australian Stock Exchange. |

DIRECTOR'S REPORT

Information on Directors (cont.)

| Mr Jason Brewer | Executive Director | | |
|---|--|---|--|
| Qualifications | M.Eng (Hons), ARSM, LLB | | |
| Experience | <p>Mr Brewer has over 15 years international experience in the natural resources sector and in investment banking. He is a mining engineer with a master's degree in mining engineering with honours from the Royal School of Mines, London. He has experience in gold and base metals mines, having worked at the Kidd Creek Copper and Zinc mine in Canada for Falconbridge, the Lanfranchi Nickel Mine in Western Australia for WMC and the Kinross Gold Mine in South Africa for Glencore.</p> | | |
| Interest in shares and options | Mr Brewer holds no shares or options in the Group. | | |
| Directorships held in other listed entities | Altona Mining Limited Terrain Minerals Limited Zambezi Resources Limited | From: 2 October 2007 From: 13 December 2007 To: 23 May 2008 From: 3 August 2009 To: 14 September 2009 | |
| Mr Manuel Lamboleo | Non Executive Director | | |
| Qualifications | Registered as a qualified stock/commodity broker (serie 3 and 7) | | |
| Experience | <p>Mr Lamboleo has extensive knowledge of the investment banking industry and long standing relationships with major investors and financial advisors worldwide. During 20 years of experience with investment banking firms in the US and Europe, Mr Lamboleo was a director of UBS AG, head of the Geneva office of Williams de Broe, as well as holding senior positions at Bank Julius Bar, Kidder Peabody, Paine Webber International and Prudential-Bache Securities. He was founder of Eastern Capital Fund and Ocean Finance. He is a non-executive director of UK based African Aura Resources Limited.</p> | | |
| Interest in shares and options | Mr Lamboleo holds no shares or options in the Group. | | |
| Directorships held in other listed entities | During the past three years, Mr Lamboleo has not served as a director of any other companies listed on the Australian Stock Exchange. | | |
| Mr Anthony Eastman | Joint Company Secretary | | |
| Qualifications | Bachelor of Commerce, CA | | |
| Experience | <p>Mr Eastman is a Chartered Accountant with a number of years experience in financial management and corporate advisory services. He has previously worked with Ernst & Young and CalEnergy Gas Ltd, a subsidiary of the Berkshire Hathaway Group of Companies in both Australia and the United Kingdom. Mr Eastman is currently Joint Company Secretary of Range Resources Limited.</p> | | |
| Interest in shares and options | Mr Eastman holds 70,000 shares in the Group. | | |
| Directorships held in other listed entities | Range Resources Limited | From: 16 June 2009 | |

DIRECTOR'S REPORT

Information on Directors (cont.)

| Ms Jane Flegg | Joint Company Secretary |
|--------------------------------|--|
| Experience | Ms Flegg has over 20 years of experience in finance and administration. During the past decade she has been a Corporate Advisor to several ASX Public Listed Companies, specialising in corporate and financial management, compliance and company secretarial advice. Ms Flegg is currently Joint Company Secretary of Range Resources Limited. |
| Interest in Shares and Options | Ms Flegg holds 20,000 shares in the company. |

Remuneration Report (Audited)

This report details the nature and amount of remuneration for each key management person of Continental Coal Limited, and for the executives receiving the highest remuneration.

The information provided in this report has been audited as required by Section 308(3c) of the Corporations Act 2001.

The remuneration report is set out under the following main headings:

- A Remuneration Policy
- B Details of remuneration
- C Equity-based compensation
- D Employment contracts of directors and senior executives

A Remuneration Policy

The remuneration policy of Continental Coal Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The Board of Continental Coal Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the consolidated group is as follows:

- The remuneration policy, setting the terms and conditions for key management personnel, was developed and approved by the Board.
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- Key management personnel can be employed by the Group on a consultancy basis, upon Board approval, with remuneration and terms stipulated in individual consultancy agreements.
- The board reviews key management personnel packages annually based on market practices, duties and accountability. Currently there is no link between remuneration and shareholder wealth or group performance. The Board may, however, approve at its discretion, incentives, bonuses and options. The policy is designed to attract the highest calibre of executives and reward them for their performance that results in long-term growth in shareholder wealth.

Remuneration Report (Audited) (cont.)

Key management personnel are also entitled to participate in the employee share and option arrangements.

The key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to key management personnel is valued at the cost to the consolidated group and expensed. Shares given to key management personnel are valued as the difference between the market price of those shares and the amount paid by key management personnel. Unlisted options are valued using the Black-Scholes methodology.

The Board believes that it has implemented suitable practices and procedures that are appropriate for an organisation of this size and maturity.

Remuneration Committee

During the year ended 30 June 2010, the group did not have a separately established nomination or remuneration committee. Considering the size of the group, the number of directors and the group's early stages of its development, the Board is of the view that these functions could be efficiently performed with full Board participation.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate and distinct.

Key Management Personnel Remuneration Policy

The Board's policy for determining the nature and amount of remuneration of key management for the group is as follows:

The remuneration structure for key management personnel is based on a number of factors, including length of service, and particular experience of the individual concerned. The contracts for service between the group and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future.

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the consolidated group with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Board's policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration of non-executive directors is reviewed annually, based on market practice, duties and accountability. Independent external advice is sought when required. Fees for non-executive directors are not linked to the performance of the consolidated group. However, to align director's interests with shareholders' interests, the directors are encouraged to hold shares in the group. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. The maximum aggregate currently stands at \$250,000 per annum and was approved by shareholders at the Annual General Meeting on 28 November 2008.

Non-executive directors may also be remunerated for additional specialised services performed at the request of the Board and reimbursed for reasonable expenses incurred by directors on group business.

DIRECTOR'S REPORT

Remuneration Report (Audited) (cont.)

B Details of Remuneration

Executive Director Remuneration

Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the group and so as to:

- Reward executives for individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of executives with those shareholders; and
- Ensure total remuneration is competitive by market standards.

Currently there is no link between remuneration and shareholder wealth or group performance.

Structure

Executive directors are provided to the group on a consultancy basis with remuneration and terms stipulated in individual consultancy agreements.

Key Management Personnel Remuneration

Details of the remuneration for each director of the group during the year was as follows:

The key management personnel of the group are the directors and executives of Continental Coal Limited being:

| | | |
|--------------------|-------------------------|-------------------------|
| • Andrew Macaulay | Executive Chairman | |
| • Peter Landau | Executive Director | |
| • Bruce Buthelezi | Executive Director | |
| • Jason Brewer | Executive Director | (from 16 December 2009) |
| • Manuel Lamboleys | Non-Executive Director | |
| • Simon Durack | Non-Executive Director | (to 16 December 2009) |
| • Anthony Eastman | Joint Company Secretary | |
| • Jane Flegg | Joint Company Secretary | |

And the directors of the South African Subsidiary, Continental Coal Ltd

| | | |
|-----------------------|------------------------|------------------------|
| • Andrew Macaulay | Chairman | |
| • Bruce Buthelezi | Managing Director | |
| • Martin Westerman | Non-Executive Director | (from 19 January 2010) |
| • Martin Van Der Poel | Non-Executive Director | (to 19 January 2010) |

And those executives that report directly to the Managing Director of the South African Subsidiary, Continental Coal Ltd

| | | |
|------------------------|-------------------------|------------------------|
| • Lodewyk 'Don' Turvey | Chief Executive Officer | (from 11 May 2010) |
| • Martin Westerman | Chief Financial Officer | |
| • Mike Nell | Chief Operating Officer | (from 14 January 2010) |
| • Petrus Snyders | Chief Operating Officer | (to 14 January 2010) |

DIRECTOR'S REPORT

Remuneration Report (Audited) (cont.)

| 2010 | Name | Short-term benefits | | Post-employment benefits | Share-based payments | Total | Performance Related | Options as Remuneration |
|--|------|------------------------------|---------|--------------------------|----------------------|-----------|---------------------|-------------------------|
| | | Cash, Salary and Commissions | Bonus's | Super-annuation | Options | | | |
| | | \$ | \$ | \$ | \$ | \$ | \$ | % |
| Key Management Personnel | | | | | | | | |
| Peter Landau | | 164,863 | | - | - | 164,863 | Nil | - |
| Andrew Macaulay | | 310,988 | 25,667 | 11,970 | - | 348,625 | Nil | - |
| Bruce Buthelezi | | 365,948 | 61,516 | 18,012 | - | 445,476 | Nil | - |
| Jason Brewer (from 16 December 2009) | | 20,000 | | - | - | 20,000 | Nil | - |
| Manuel Lamboleys | | 69,996 | | - | - | 69,996 | Nil | - |
| Simon Durack (to 16 December 2009) | | 22,356 | | - | - | 22,356 | Nil | - |
| Anthony Eastman* | | - | | - | - | - | Nil | - |
| Jane Flegg * | | - | | - | - | - | Nil | - |
| Lodewyk 'Don' Turvey (from 11 May 2010) | | 68,105 | | 6,379 | - | 74,484 | Nil | - |
| Martin Westerman | | 292,396 | | 12,007 | 104,416 | 408,819 | Nil | 26% |
| Mike Nell (from 14 January 2010) | | 112,217 | | - | 118,910 | 231,127 | Nil | 51% |
| Martin Van Der Poel (to 19 January 2010) | | 152,291 | | - | - | 152,291 | Nil | - |
| Petrus Snyders (to 14 January 2010) | | 170,901 | | 7,700 | 109,375 | 287,976 | Nil | 38% |
| | | 1,750,061 | 87,183 | 56,068 | 332,701 | 2,226,013 | Nil | 15% |

*Jane Flegg and Anthony Eastman are employees of Okap Ventures Pty Ltd and are paid a salary through Okap's consulting agreement with Continental Coal Limited.

DIRECTOR'S REPORT

Remuneration Report (Audited) (cont.)

| 2009 | Post-employment benefits | | | Total | Performance Related | Options as Remuneration |
|---|------------------------------|----------------------|---------|-----------|---------------------|-------------------------|
| | Short-term benefits | Share-based payments | | | | |
| Name | Cash, Salary and Commissions | Super-annuation | Options | \$ | \$ | % |
| Key Management Personnel | | | | | | |
| Peter Landau | 163,500 | - | - | 163,500 | Nil | - |
| Andrew Macaulay (from 31 January 2009) | 121,234 | 4,644 | - | 125,878 | Nil | - |
| Bruce Buthelezi (from 31 January 2009) | 157,587 | 4,644 | - | 162,231 | Nil | - |
| Manuel Lamboleys | 63,006 | - | - | 63,006 | Nil | - |
| Simon Durack (from 21 May 2009) | - | - | - | - | Nil | - |
| Anthony Eastman* (to 21 May 2009) | 40,000 | - | - | 40,000 | Nil | - |
| Richard Napier (to 21 May 2009) | 84,996 | - | - | 84,996 | Nil | - |
| Jane Flegg * | - | - | - | - | Nil | - |
| Martin Van Der Poel (from 31 January 2009) | 278,937 | - | - | 278,937 | Nil | - |
| Martin Westerman (from 31 January 2009) | 121,787 | 3,096 | - | 124,883 | Nil | - |
| Petrus Snyders (from 1 April 2009) | 105,053 | 3,971 | 32,813 | 141,837 | Nil | 23% |
| | 1,136,100 | 16,355 | 32,813 | 1,185,268 | Nil | 3% |

*Jane Flegg and Anthony Eastman (from 21 May 2009) are employees of Okap Ventures Pty Ltd and are paid a salary through Okap's consulting agreement with Continental Coal Limited.

C Equity-based compensation

Options issued as part of remuneration for the year ended 30 June 2010

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of Continental Coal Limited and its subsidiaries to increase goal congruence between executives, directors and shareholders.

DIRECTOR'S REPORT

Remuneration Report (Audited) (cont.)

Options Granted As Remuneration

| Key Management Personnel | Vested No. | Granted No. | Date Granted | Date Vested & Exercisable | Last Exercisable Date | Exercise Price | Value per option at grant date \$ | Total Value \$ |
|-----------------------------|------------|-------------|--------------|---|-----------------------|----------------|-----------------------------------|----------------|
| Peter Landau | - | - | - | - | - | - | - | - |
| Andrew Macaulay | - | - | - | - | - | - | - | - |
| Bruce Buthelezi | - | - | - | - | - | - | - | - |
| Jason Brewer | | | | | | | | |
| Manuel Lamboleys | - | - | - | - | - | - | - | - |
| Simon Durack | - | - | - | - | - | - | - | - |
| Anthony Eastman | - | - | - | - | - | - | - | - |
| Jane Flegg | - | - | - | - | - | - | - | - |
| Lodewyk 'Don' Turvey | - | - | - | - | - | - | - | - |
| Martin Westerman | - | 5,000,000 | 01/07/09 | 2,500,000 01/07/10 2,500,000 01/07/11 | 30/06/2012 | 10 cents | 0.0208 | 104,416 |
| Mike Nell | - | 15,000,000 | 10/12/09 | 5,000,000 10/12/2010 5,000,000 10/12/2011 5,000,000 10/12/2012 | 31/12/2012 | 5 cents | 0.0259 | 389,158 |
| Martin Van Der Poel | - | - | - | - | - | - | - | - |
| Petrus Snyders ¹ | - | - | - | - | - | - | - | - |
| | - | 25,000,000 | | | | | | |

All options were granted for nil consideration. No options have vested during the year, none have been forfeited.

DIRECTOR'S REPORT

Remuneration Report (Audited) (cont.)

Details of options over ordinary shares in the group provided as remuneration to each director of Continental Coal Limited are set out below. When exercisable, each option is convertible into one ordinary share of Continental Coal Limited. Further information on the options is set out in note 32 of the financial statements.

| Name | Number of options granted during the year | | Number of options vested during the year | |
|----------------------|--|------------------------|---|------|
| | 2010 | 2009 | 2010 | 2009 |
| Peter Landau | - | - | - | - |
| Andrew Macaulay | - | - | - | - |
| Bruce Buthelezi | - | - | - | - |
| Jason Brewer | - | - | - | - |
| Manuel Lamboleys | - | - | - | - |
| Simon Durack | - | - | - | - |
| Anthony Eastman | - | - | - | - |
| Jane Flegg | - | - | - | - |
| Lodewyk 'Don' Turvey | - | - | - | - |
| Martin Westerman | 5,000,000 | - | - | - |
| Mike Nell | 15,000,000 | - | - | - |
| Martin Van Der Poel | - | - | - | - |
| Petrus Snyders | - | 5,000,000 ¹ | - | - |

¹ These options lapsed during the current year.

The assessed fair value at grant date of options granted to individuals is allocated over the period from grant date to vesting date, and the amount is included in the tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended included:

| | 2010 | |
|--|--------------|------------------|
| (i) exercise price: | 10 cents | 5 cents |
| (ii) grant date: | 1 July 2009 | 10 December 2009 |
| (iii) expiry date: | 30 June 2012 | 31 December 2012 |
| (iv) share price at grant date: | 6 cents | 4.9 cents |
| (v) expected volatility of the group's shares: | 70% | 76.56% |
| (vi) expected dividend yield: nil | Nil | Nil |
| (vii) risk-free interest rate: | 3.93% | 4.85% |

DIRECTOR'S REPORT

Remuneration Report (Audited) (cont.)

Shares Issued on Exercise of Compensation Options

No options lapsed and no options were exercised during the year.

| | 2010 | 2010 | 2010 |
|--|--|---------------------|---|
| | Options Granted as Part of Remuneration | % Vested to date | Maximum Total Value of Grant yet to Vest |
| | \$ | | \$ |
| Peter Landau | - | - | - |
| Andrew Macaulay | - | - | - |
| Bruce Buthelezi | - | - | - |
| Jason Brewer (from 16 December 2009) | - | - | - |
| Manuel Lamboleys | - | - | - |
| Simon Durack (to 16 December 2009) | - | - | - |
| Anthony Eastman | - | - | - |
| Jane Flegg | - | - | - |
| Lodewyk 'Don' Turvey (From 11 May 2010) | - | - | - |
| Martin Westerman | 52,208 | 50% | 52,208 |
| Mike Nell | 118,910 | 31% | 270,248 |
| Martin Van Der Poel | - | - | - |
| Petrus Snyders (to 14 January 2010) | - | - | - |
| | 171,118 | - | 322,456 |

D Employment Contracts of Directors and Senior Executives

Employment Contracts of Directors and Senior Executives

Remuneration and other terms of employment for Executive Directors (Mr Peter Landau and Jason Brewer) and Non-Executive Director (Mr Manuel Lamboleys) are formalised in consultancy agreements with the parent company. Mr Simon Durack resigned before his agreement was formalised.

Agreements for Executive Chairman Mr Andrew Macaulay, Executive Director Mr Bruce Buthelezi, Chief Executive Officer Mr Lodewyk 'Don' Turvey, Chief Financial Officer Mr Martin Westerman and Chief Operating Officer Mike Nell are with the subsidiary Continental Coal Ltd in South Africa.

Major provisions of the agreement relating to remuneration are set out below.

DIRECTOR'S REPORT

Remuneration Report (Audited) (cont.)

Agreements with parent company

Executive Director (Mr Peter Landau)

- Term of Agreement – The agreement commenced on 1 July 2007, for a term of three years or until either party gives 3 months written notice of termination or otherwise terminated in accordance with the consultancy agreement.
- Remuneration \$163,500 per annum plus GST payable monthly and reviewed annually, payable to Mr Peter Landau or nominee.
- Payment of termination of Agreement without cause – the balance of any part of the term remaining, subject to the requirements of ASX Listing Rule 10.19.

Executive Director (Mr Jason Brewer (from 16 December 2009))

- Term of Agreement – The agreement commenced on 16 December 2009, for a term of three years or until either party gives 3 months written notice of termination or otherwise terminated in accordance with the consultancy agreement.
- Remuneration \$50,000 per annum plus GST payable monthly and reviewed annually, payable to Mr Jason Brewer or nominee.
- Payment of termination of Agreement without cause – the balance of any part of the term remaining, subject to the requirements of ASX Listing Rule 10.19.

Non-Executive Director (Mr Manuel Lamboley)

- Term of Agreement – The agreement commenced on 7 August 2007 for a term of three years or until either party gives 3 months written notice of termination or otherwise terminated in accordance with the consultancy agreement.
- Remuneration US\$72,000 per annum based on 78 days per annum payable monthly and reviewed annually, payable to Mr Manuel Lamboley or nominee
- Payment of termination of Agreement without cause – the balance of any part of the term remaining, subject to the requirements of ASX Listing Rule 10.193

Agreements with subsidiary

Executive Chairman (Mr Andrew Macaulay)

- Term of Agreement – The agreement was effective 1 April 2008 for an unspecified term or until either party gives one month's written notice of termination or otherwise terminated in accordance with the consultancy agreement.
- Remuneration Rand 2,595,432 (AU\$389,574) per annum payable monthly and reviewed annually, payable to Mr Andrew Macaulay or nominee.
- Payment of termination of Agreement without cause – the balance of any part of the notice period.

Executive Director (Mr Bruce Buthelezi)

- Term of Agreement – The agreement was effective 1 April 2008 for an unspecified term or until either party gives one month's written notice of termination or otherwise terminated in accordance with the consultancy agreement.
- Remuneration Rand 2,563,452 (AU\$384,774) per annum payable monthly and reviewed annually, payable to Mr Bruce Buthelezi or nominee.
- Payment of termination of Agreement without cause – the balance of any part of the notice period.

DIRECTOR'S REPORT

Remuneration Report (Audited) (cont.)

Chief Executive Officer (Mr Lodewyk 'Don' Turvey)

- Term of Agreement – The agreement commenced on 10 May 2010 for an unspecified term or until either party gives six month's written notice of termination or otherwise terminated in accordance with the consultancy agreement.
- Remuneration Rand 3,400,000 (AU\$510,340) per annum payable monthly and reviewed annually, payable to M Lodewyk 'Don' Turvey or nominee.
- Payment of termination of Agreement without cause – the balance of any part of the notice period.

Chief Financial Officer/Non-Executive Director (from 14 January 2010) of South African Subsidiary (Mr Martin Westerman)

- Term of Agreement – The agreement commenced on 2 February 2009 for an unspecified term or until either party gives one month's written notice of termination or otherwise terminated in accordance with the consultancy agreement.
- Remuneration Rand 1,872,000 (AU\$280,987) per annum payable monthly and reviewed annually, payable to Mr Westerman or nominee.
- Payment of termination of Agreement without cause – the balance of any part of the notice period.

Chief Operating Officer (Mr Mike Nell)

- Term of Agreement – The agreement commenced on 8 February 2010 for an unspecified term or until either party gives one month's written notice of termination or otherwise terminated in accordance with the consultancy agreement.
- Remuneration Rand 1,940,409 (AU\$291,255) per annum payable monthly and reviewed annually, payable to Mr Nell or nominee.
- Payment of termination of Agreement without cause – the balance of any part of the notice period.

Trading in the group's securities by directors, officers and employees

The Board has adopted a policy in relation to dealings in the securities of the group which applies to all directors and employees. Under the policy, the directors, officers and employees are prohibited from dealing in the Group's securities whilst in possession of price sensitive information and also prohibited from short term or "active" trading in the Group's securities. The directors, officers and employees should also prevent dealing in the Group's securities during specific blackout periods. The Company Secretary or a director must be notified upon a trade occurring.

The policy is provided to all directors and employees. Compliance with it is reviewed on an ongoing basis in accordance with the Group's risk management systems.

This is the end of the audited Remuneration Report.

DIRECTOR'S REPORT

Meetings of Directors

During the financial year, seven meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

| Director | Board Meetings | | Audit and Compliance Committee | |
|----------------|---------------------------|----------|--------------------------------|----------|
| | Held & Eligible to attend | Attended | Held | Attended |
| Mr P Landau | 5 | 5 | 2 | 2 |
| Mr A Macaulay | 5 | 5 | N/A | N/A |
| Mr B Buthelezi | 5 | 5 | N/A | N/A |
| Mr J Brewer | 3 | 3 | N/A | N/A |
| Mr M Lamboley | 5 | - | N/A | N/A |
| Mr S Durack | 2 | - | N/A | N/A |

Indemnifying Officers or Auditor

In accordance with the constitution, except where prohibited by the Corporations Act 2001, every director, principal executive officer or secretary of the Group shall be indemnified out of the property of the Group against any liability incurred by him in his capacity as director, principal executive officer or secretary of the Group or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

During the year the Group paid a premium of \$16,287 to insure the directors and officers of the Group.

Options

At the date of this report, the vested unissued ordinary shares of Continental Coal Limited under option are as follows:

| Date of Expiry | Exercise Price | Number Under-Option |
|----------------|----------------|--------------------------|
| 19/10/2011 | \$0.15 | 60,000,000 |
| 19/10/2011 | \$0.20 | 60,000,000 |
| 13/02/2013 | \$0.05 | 402,093,719 ¹ |
| 13/02/2013 | \$0.05 | 50,000,000 |
| 06/08/2013 | \$0.05 | 82,000,000 |
| | | 654,093,719 |

¹ Listed Options.

During the year ended 30 June 2010, 136,000,000 (2009: nil) ordinary shares of Continental Coal Limited were issued on the exercise of options.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

DIRECTOR'S REPORT

Proceedings on Behalf of Group

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the financial year.

Non-Audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year (if any) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and APES 110 Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

KPMG South Africa provided non-audit services to the subsidiary for \$54,615 (note 8) in relation to tax compliance during the year.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2010 as required under Section 307c of the *Corporations Act 2001*, is set out on page 26.

This report is made in accordance with a resolution of directors.

A handwritten signature of Peter Landau, consisting of several thin, dark lines forming a stylized, cursive script.

Peter Landau
Executive Director

Dated this 30th day of September 2010

AUDITOR'S INDEPENDENCE DECLARATION



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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

30th September 2010

The Directors
Continental Coal Limited
Ground Floor
1 Havelock Street
WEST PERTH WA 6005

Dear Sirs,

**DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF
CONTINENTAL COAL LIMITED**

As lead auditor of Continental Coal Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Continental Coal Limited and the entities it controlled during the period.

Glyn O'Brien
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

| | Note | Consolidated | |
|--|----------|---------------------|---------------------|
| | | 2010 \$ | 2009 \$ |
| Revenue from continuing operations | 2 | 14,632 | 7,338 |
| Other income | 2 | 353,016 | - |
| Depreciation expense | 3 | (77,430) | (25,427) |
| Provision for impairment | 3 | (2,003,027) | (6,836,744) |
| Other expenses | 3 | (13,493,700) | (3,881,267) |
| Finance costs | 3 | (12,254,969) | (3,818,907) |
| Loss before income tax expense | | (27,461,478) | (14,555,007) |
| Income tax expense | 4 | - | - |
| Loss from continuing operations after income tax expense | | (27,461,478) | (14,555,007) |
| Loss from discontinued operations | 5 | - | (350,519) |
| Loss for the year | | (27,461,478) | (14,905,526) |
| Other Comprehensive Income/(Loss) | | | |
| Revaluation of available-for-sale financial assets | | - | 884,063 |
| Exchange differences on translation of foreign operations | | (37,077) | 252,476 |
| Other comprehensive income/(loss) for the year, net of tax | | (37,077) | 1,136,539 |
| Total comprehensive income/(loss) for the year | | (27,498,555) | (13,768,987) |
| Net loss is attributable to: | | | |
| Owners of Continental Coal Limited | | (24,856,150) | (14,905,526) |
| Non-controlling interests | | (2,605,328) | - |
| | | (27,461,478) | (14,905,526) |
| Total comprehensive loss is attributable to: | | | |
| Owners of Continental Coal Limited | | (24,883,587) | (13,768,987) |
| Non-controlling interests | | (2,614,968) | - |
| | | (27,498,555) | (13,768,987) |

**Earnings/(loss) per share for loss from continuing operations
attributable to the ordinary equity holders of the company:**

| | | | |
|---|----------|--------|--------|
| Basic loss per share (cents per share) | 9 | (2.68) | (5.31) |
| Diluted loss per share (cents per share) | 9 | n/a | n/a |

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

ASSETS

CURRENT ASSETS

| | Note | Consolidated | |
|--|------|--------------|---------------|
| | | 2010 | 2009 Restated |
| | | \$ | \$ |
| Cash and cash equivalents | 10 | 39,822 | 89,782 |
| Trade and other receivables | 11 | 890,877 | 1,536,983 |
| Prepaid borrowing costs | 12 | 1,775,644 | 4,018,270 |
| | | 2,706,343 | 5,645,035 |
| Non-current assets classified as held for sale | 6 | 9,758,024 | 10,269,919 |
| | | 12,464,367 | 15,914,954 |
| TOTAL CURRENT ASSETS | | | |

NON-CURRENT ASSETS

| | Note | | |
|-------------------------------------|------|------------|------------|
| Prepaid borrowing costs | 12 | 15,948 | 1,711,852 |
| Available-for-sale financial assets | 13 | 113,437 | 192,188 |
| Exploration expenditure | 16 | 47,588,978 | 34,713,415 |
| Development expenditure | 17 | 9,059,226 | - |
| Property, plant and equipment | 18 | 353,010 | 293,779 |
| Other financial assets | 19 | 8,835,750 | - |
| | | 65,966,349 | 36,911,234 |
| TOTAL NON-CURRENT ASSETS | | | |

TOTAL ASSETS

| | | | |
|---------------------|--|------------|------------|
| TOTAL ASSETS | | | |
| | | 78,430,716 | 52,826,188 |

CURRENT LIABILITIES

| | Note | | |
|---|------|------------|------------|
| Trade and other payables | 20 | 14,014,746 | 4,295,200 |
| Deferred revenue | 21 | 1,606,500 | - |
| Borrowings | 23 | 19,794,870 | 8,159,845 |
| | | 35,416,118 | 12,455,045 |
| Accruals relating to held for sale assets | 6 | 557,754 | 727,129 |
| | | 35,973,872 | 13,182,174 |
| TOTAL CURRENT LIABILITIES | | | |

NON-CURRENT LIABILITIES

| | Note | | |
|--------------------------------------|------|-----------|------------|
| Trade and other payables | 20 | - | 1,214,907 |
| Provision for rehabilitation | 22 | 2,231,672 | - |
| Borrowings | 23 | - | 13,203,000 |
| | | 2,231,672 | 14,417,907 |
| TOTAL NON-CURRENT LIABILITIES | | | |

TOTAL LIABILITIES

| | | | |
|--------------------------|--|------------|------------|
| TOTAL LIABILITIES | | | |
| | | 38,205,544 | 27,600,081 |

| | | | |
|-------------------|--|-------------------|-------------------|
| NET ASSETS | | | |
| | | 40,225,172 | 25,226,107 |

EQUITY

| | Note | | |
|---|------|-------------------|-------------------|
| Issued capital | 24 | 100,829,337 | 54,154,598 |
| Shares and options to be issued | 25 | 90,000 | 16,294,698 |
| Reserves | 26 | 19,027,383 | 7,027,241 |
| Accumulated losses | | (77,106,580) | (52,250,430) |
| | | 42,840,140 | 25,226,107 |
| Capital and reserves attributable to owners of Continental Coal Limited | | (2,614,968) | - |
| Less: Amounts attributable to non-controlling interests | | | |
| TOTAL EQUITY | | 40,225,172 | 25,226,107 |

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

| Consolidated | Share Capital Ordinary | Accum- ulated losses | Available for Sale Investments Reserve | Foreign Currency Translation Reserve | Option Reserve | Share Based Payment Reserve | Shares and Options to be Issued | Total | Non- Controlling Interest | Total |
|--|-----------------------------------|-------------------------------------|---|---|---------------------------|--|--|------------------------------|--|------------------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at 1 July 2008 | 43,209,546 | (37,344,904) | (884,063) | (17,651) | 652,602 | 3,430,905 | - | 9,046,435 (14,905,526) | - | 9,046,435 (14,905,526) |
| Loss for the year | | | | | | | | | | |
| Revaluation of Available-for-sale financial assets | - | - | 884,063 | - | - | - | - | 884,063 | - | 884,063 |
| Exchange differences on translation of foreign operations | - | - | - | 252,476 | - | - | - | 252,476 | - | 252,476 |
| Total comprehensive income for the year | - | (14,905,526) | 884,063 | 252,476 | - | - | - | (13,768,987) | - | (13,768,987) |
| Transactions with owners in their capacity as owners: | | | | | | | | | | |
| Shares issued during the year | 11,360,265 | - | - | - | - | - | - | 11,360,265 (415,213) | - | 11,360,265 (415,213) |
| Transaction costs | (415,213) | - | - | - | - | - | - | 16,294,698 2,708,909 | - | 16,294,698 2,708,909 |
| Un-issued shares/options (note 23) | - | - | - | - | - | - | - | - | - | - |
| Share based payment reserve | - | - | - | - | - | - | - | - | - | - |
| Balance at 1 July 2009 | 54,154,598 | (52,250,430) | - | 234,825 | 652,602 | 6,139,814 | 16,294,698 | 25,226,107 | - | 25,226,107 |
| Loss for the year | | | | | | | | | | |
| Exchange differences on translation of foreign operations | - | - | - | (27,437) | - | - | - | (27,437) | (9,640) | (37,077) |
| Total comprehensive income for the year | - | (24,856,150) | - | (27,437) | - | - | - | (24,883,587) | (2,614,968) | (27,498,555) |
| Transactions with owners in their capacity as owners: | | | | | | | | | | |
| Shares issued during the year | 48,450,650 | - | - | - | - | - | - | 48,450,650 (1,775,911) | - | 48,450,650 (1,775,911) |
| Transaction costs | (1,775,911) | - | - | - | - | - | - | (16,204,698) (16,204,698) | - | (16,204,698) (16,204,698) |
| Un-issued shares/options (note 23) | - | - | - | - | - | - | - | - | - | - |
| Transfers to and from reserve | - | - | - | - | - | - | - | - | - | - |
| - option reserve | - | - | - | - | - | - | - | - | - | - |
| - share based payment reserve | - | - | - | - | - | - | - | 12,027,579 | - | 12,027,579 |
| Balance at 30 June 2010 | 100,829,337 | (77,106,580) | - | 207,388 | 652,602 | 18,167,393 | 90,000 | 42,840,140 | (2,614,968) | 40,225,172 |

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

CASH FLOWS FROM OPERATING ACTIVITIES

| | Note | Consolidated | |
|---|------|--------------|-------------|
| | | 2010 \$ | 2009 \$ |
| Receipts from customers | | 1,606,500 | - |
| Interest received | | 14,632 | 7,338 |
| Payments to suppliers and employees | | (751,250) | (2,191,395) |
| Finance costs | | (1,856,794) | (563,620) |
| Net cash (used in) operating activities | 31 | (986,912) | (2,745,676) |

CASH FLOWS FROM INVESTING ACTIVITIES

| | Note | 2010 \$ | 2009 \$ |
|---|-------|--------------|--------------|
| Net cash acquired on acquisition of subsidiary | 14(b) | - | 517,190 |
| Proceeds from sale of investments | | - | 948,365 |
| Exploration expenditure | 16 | (21,382,598) | - |
| Investment in equity accounted investee | | - | (17,632,553) |
| Deposit equity investment | 19 | (8,835,750) | - |
| Purchase of other non-current assets | | (137,342) | (92,027) |
| Net cash provided by / (used in) investing activities | | (30,355,690) | (16,259,025) |

CASH FLOWS FROM FINANCING ACTIVITIES

| | 2010 \$ | 2009 \$ |
|---|------------|------------|
| Proceeds from issue of shares, net of transaction costs | 19,142,980 | 2,784,787 |
| Proceeds from borrowings | 13,058,695 | 15,425,534 |
| Repayment of borrowings | (909,122) | - |
| Net cash provided by financing activities | 31,292,555 | 18,210,321 |

| | 2010 \$ | 2009 \$ |
|---|------------|------------|
| Net (decrease) in cash held | (50,047) | (794,381) |
| Effect of the exchange rate changes on the balances of cash held in foreign currencies at the beginning of the financial year | 87 | (4,259) |
| Cash at beginning of financial year | 89,782 | 888,422 |
| Cash at end of financial year (i) | 10 | 39,822 |
| | | 89,782 |

(i) Subsequent to year end \$38m has been received after successful completion of a placement to sophisticated and institutional investors raising \$22m before costs, and \$16m in the group's Share Purchase Plan, refer Note 33 Events occurring after the reporting date.

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies

The financial statements include Continental Coal Limited and controlled entities ("Consolidated entity" or "group"). Separate financial statements of Continental Coal Limited are no longer presented as a result of a change to the Corporations Act 2001. Financial information for Continental Coal Limited as an individual entity is disclosed in note 35. Continental Coal Limited is a listed public company, incorporated and domiciled in Australia.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

These financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, or other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial statement containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below. They have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Financial Statement Presentation

The group has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

Going Concern

The accounts have been prepared on the basis that the group can meet its commitments as and when they fall due and can therefore continue normal business activities, and the realisation of assets and liabilities in the ordinary course of business.

At reporting date, the group had current assets of \$12,464,367 and current liabilities of \$35,973,872 and as disclosed in note 28, had commitments of \$171,589,869. The directors believe the entity will be able to raise the funds necessary to meet their current liabilities and commitments on completion of the current debt facility, sale of Vanmag and further capital raising.

The ability of the Group to continue as a going concern and settle its current liabilities is fundamentally dependant upon the ability of the Group to raise funding for future activities or the sale of assets. The Directors consider that there are reasonable grounds to believe that the Group will continue to raise equity and/or debt or sell necessary assets to meet its short to medium term funding requirements.

Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the functional currency of the consolidated entity as there are no sales being received from commercial production and the majority of the financing is in Australian dollars.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont.)

Accounting Policies

(a) Principles of Consolidation

Subsidiaries

A controlled entity is any entity over which Continental Coal Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in note 15 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interest results in gains and losses for the Group that are recorded in the profit or loss. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income and statement of financial position respectively.

Changes in Ownership Interests

The group treats transactions with non-controlling interest that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interest to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Continental Coal Ltd.

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained recognised in other comprehensive income in respect of that entity or financial asset. In addition, any amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control; or significant influence is retained, on a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where applicable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont.)

(a) Principles of Consolidation (cont.)

Business Combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Change in Accounting Policy

A revised AASB 3 *Business Combinations* became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the group's net profit after tax.

The changes were implemented prospectively from 1 July 2009 and did not affect the accounting for the acquisition of Continental Coal Limited South Africa disclosed in Note 14.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont.)

(a) Principles of Consolidation (cont.)

Changes in accounting policy

The group has changed its accounting policy for transactions with non-controlling interests from 1 July 2009 when a revised AASB 127 Consolidated and Separate Financial Statements became operative. Previously, any losses attributable to the non-controlling interest were attributed to the consolidated entity. The revised standard requires losses to be attributed to the non-controlling interest, whereas before only profits were attributed to the non-controlling interest. The group has applied this policy prospectively to transactions occurring on or after 1 July 2009. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

The impact of this change on the 30 June 2010 financial statements of the group is attribution of \$2,605,328 of loss to the non-controlling interest, representing the non-controlling interests 26% share of loss of the South African subsidiary Continental Coal Limited. \$9,640 of equity is also attributed to the non-controlling interest in the statement of financial position. See also note 15(ii), 15(iii), and Note 27 for other disclosures related to this change.

(b) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and a settlement of the respective asset and liability will occur.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont.)

(b) Income Tax (cont.)

Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(c) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors who are responsible for making strategic decisions.

Change in accounting policy

The group has adopted AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of AASB 8 has not changed the disclosure of operating segments for Continental nor has there been any other impact on the measurement of the group's assets and liabilities.

(d) Property, Plant and Equipment

Each class of plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable asset are:

| Class of Fixed Asset | Depreciation Rate |
|----------------------|-------------------|
| Australia | |
| Computer equipment | 25% |
| South Africa | |
| Furniture & fittings | 15% |
| Office equipment | 10% |
| Computer equipment | 33% |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont.)

(d) Property, Plant and Equipment (cont.)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the profit or loss.

(e) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

(f) Development expenditure

Once a mining project has been established as commercially viable and technically feasible, expenditure other than that on land, buildings and plant equipment is capitalised under development expenditure. Development expenditure costs include previously capitalised exploration and evaluation costs, pre-production development costs, development excavation, development studies and other subsurface expenditure pertaining to that area of interest. Costs related to surface plant and equipment and any associated land and buildings are accounted for as property, plant and equipment.

Development costs are accumulated in respect of each separate area of interest. Costs associated with commissioning new assets in the period before they are capable of operating in the manner intended by management, are capitalised. Development costs incurred after the commencement of production are capitalised to the extent they are expected to give rise to a future economic benefit.

When an area of interest is abandoned or the Directors decide it is not commercial or technically feasible, any accumulated cost in respect of that area is written off in the financial period the decision is made. Each area of interest is reviewed at the end of each accounting period and accumulated cost written off to the Statement of Comprehensive Income to the extent that they will not be recoverable in the future.

Amortisation of carried forward exploration and development costs is charged on a unit of production basis over the life of economically recoverable reserves.

Development assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, development assets allocated to cash-generating units to which the development activity relates. The cash generating unit shall not be larger than the area of interest.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont.)

(g) Rehabilitation

The mining, extraction and processing activities of Continental Coal Limited give rise to obligations for site rehabilitation. Rehabilitation obligations can include facility decommissioning and dismantling, removal or treatment of waste materials, land rehabilitation and site restoration. The extent of work required and the associated costs are estimated based on feasibility and engineering studies using current restoration standards and techniques. Provisions for the cost of each rehabilitation program are recognised at the time that environmental disturbance occurs.

Rehabilitation provisions are initially measured at the expected value of future cash flows required to rehabilitate the relevant site, discounted to their present value. The value of the provision is progressively increased over time as the effect of discounting unwinds. When provisions for rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of rehabilitation activities is recognised in 'Development Expenditure' as rehabilitation assets and amortised accordingly.

Where rehabilitation is expected to be conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the present obligation or estimated outstanding continuous rehabilitation work at each Consolidated Statement of Financial Performance date and the costs charged to the Consolidated Statement of Comprehensive Income in line with remaining future cash flows.

(h) Investments and Other Financial Assets

Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 11) in the statement of financial position.

(ii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont.)

(h) Investments and Other Financial Assets (cont.)

Recognition and Initial Measurement

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the profit or loss as gains and losses from investment securities.

Subsequent measurement

Loans and receivables and are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and are subsequently carried at fair value. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Details on how the fair value of financial instruments is determined are disclosed in note 36.

Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit or loss. Impairment losses recognised in the profit or loss on equity instruments classified as available-for-sale are not reversed through the profit or loss.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the profit or loss.

(i) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont.)

(j) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the profit or loss.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the profit or loss.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the profit or loss in the period in which the operation is disposed.

(k) Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

(l) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont.)

(m) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(n) Revenue Recognition

Revenue is measured at the fair value of gross consideration received or receivable. Continental Coal recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for Continental Coal's activities. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. Continental Coal bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sale of Goods

Revenue from the sale of goods and disposal of other assets is recognised when persuasive evidence, usually in the form of an executed sales agreement, or an arrangement exists, indicating there has been a transfer of risks and rewards to the customer, no further work or processing is required by the Group, the quantity and quality of the goods has been determined with reasonable accuracy, the price can be reasonably estimated, and collectability is reasonably assured.

Continental Coal recognises revenue when the risks and rewards transfers to the buyer which is typically the bill of loading date.

Sales earned during the testing period/before mine reaches commercial production are offset against exploration and or development and not taken to the profit or loss.

(ii) Interest revenue

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

All revenue is stated net of the amount of goods and services tax (GST) and (VAT).

(o) Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of

estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of provision is recognised in the profit or loss within other expenses.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont.)

(p) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and they are usually paid within 30 days of recognition.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the borrowings using the effective interest rate method. Fees paid on the establishment of loan facilities, which are not an incremental costs relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(r) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

(s) Goods and Services Tax (GST) and (VAT)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

The South African subsidiary complies with the foreign tax/VAT regulations of South Africa.

(t) Contributed Equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, eg as the result of a share buy-back, those instruments are deducted from the equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributed incremental costs (net of income taxes) is recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont.)

(u) Earnings Per Share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no considerations in relation to dilutive potential ordinary shares.

(v) Share-Based Payments

Share-based compensation benefits to directors, employees and consultants are provided at the discretion of the board.

The fair value of options granted is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the recipient becomes unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the profit or loss with a corresponding adjustment to equity.

(w) Non-Current Assets Held-For-Sale and Discontinued Operations

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont.)

(w) Non-Current Assets Held-For-Sale and Discontinued Operations (cont.)

Non-current assets classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of comprehensive income.

(x) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(y) Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key estimates – Exploration assets

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of exploration assets. Where an impairment trigger exists, the recoverable amount of the asset is determined based on historical knowledge and best available current information. \$1,924,276 of exploration expenditure was written-off during the year as it was determined to be non-recoverable.

Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from Continental Coal's current mining tenements. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. Estimating the quality and/or grade of reserves requires the size, shape and depth of coal deposits to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect Continental Coal's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows
- Depreciation and amortisation charges in the Statement of Comprehensive Income may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont.)

(y) Critical Accounting Estimates and Judgements (cont.)

Non-Recognition of Deferred Tax Asset

A deferred tax asset has not been recognised as the Group historically not had taxable income.

Rehabilitation provision

Key assumptions used in the estimation of environmental obligations are as follows:-

| | |
|--------------------------|-------|
| Discount Rate | 9.04% |
| Inflation | 6% |
| Expected closure of mine | 2023 |

Included in the provision are monthly contributions to a Liberty investment product, approved by the DMR. The funds are invested in money market. The proceeds from these funds are intended to fund environmental rehabilitation of the Vlakvarkfontein Project and they are not available for general purposes of the company and are classified as restricted funds. All income earned on these funds is re-invested.

Classification of revenue

Revenue is carried against the asset until Commercial production occurs.

Note 2: Revenue

| | Note | Consolidated | |
|---|------|--------------|------------|
| | | 2010 \$ | 2009 \$ |
| Other revenue | | | |
| – interest revenue | | 14,632 | 7,338 |
| Total other revenue | | 14,632 | 7,338 |
| Total sales and other revenue from continuing operations | | 14,632 | 7,338 |
| Other income | | | |
| – Foreign exchange gain on revaluation of USD and ZAR loans | | 353,016 | - |
| Total other income | | 353,016 | - |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 3: Profit/(loss) for the year

| | Consolidated | |
|---|-------------------|------------------|
| | 2010 \$ | 2009 \$ |
| (a) Loss before income tax includes the following specific expenses: | | |
| Finance costs | | |
| – Interest and finance charges | 3,744,717 | 1,465,424 |
| – Unwinding of prepaid borrowing costs | 8,403,982 | 1,655,576 |
| – Other borrowing costs | 106,270 | – |
| – Foreign currency translation losses on revaluation of USD and ZAR Loans | – | 697,907 |
| Total finance costs | 12,254,969 | 3,818,907 |
| Impairment | | |
| – Impairment of available-for-sale investments - realised | – | 2,109,207 |
| – Impairment of available-for-sale investments - unrealised | 78,751 | 359,684 |
| – Write off exploration expenses from continuing operations | 1,924,276 | 4,368,053 |
| Total impairment | 2,003,027 | 6,836,744 |
| Depreciation | 77,430 | 25,427 |
| Other Expenses: | | |
| – Employee related costs | 1,983,572 | 397,634 |
| – Directors fees | 277,215 | 351,502 |
| – Pre feasibility costs in relation to South African projects | 879,240 | 48,351 |
| – Consultants (including share based payments) | 3,279,792 | 546,422 |
| – Legal fees | 691363 | 436,960 |
| – Finders fees | 1,256,609 | – |
| – Occupancy | 268,392 | – |
| – Other expenses | 4,857,517 | 2,451,900 |
| Total other expenses | 13,493,700 | 3,881,267 |
| Discontinued operations (note 5) | | |
| – Write off exploration expenses from discontinuing operations | – | 324,788 |
| – Write off other assets from discontinuing operations | – | 25,731 |
| Total discontinued operations | – | 350,519 |
| (b) Significant Revenue and Expenses | | |
| The following significant revenue and expense items are relevant in explaining the financial performance: | | |
| Directors fees | 277,213 | 351,502 |
| Consulting fees | 3,279,792 | 546,422 |
| Share based payment expense in relation to consulting services | – | 636,362 |
| Pre feasibility costs in relation to South African Projects | 879,240 | 48,351 |
| Finders fees in relation to project in subsidiary not capitalised | 1,256,609 | – |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 4: Income Tax Expense

| | Consolidated | |
|--|--------------|--------------|
| | 2010 \$ | 2009 \$ |
| (a) The components of tax expense comprise: | | |
| Current tax | - | - |
| Deferred tax | - | - |
| Recoupment of prior year tax losses | - | - |
| Under provision in respect of prior years | - | - |
| | - | - |
| (b) The prima facie tax on profit/(loss) before income tax is reconciled to the income tax as follows: | | |
| Profit/(loss) from continuing operations before income tax | (27,461,478) | (14,905,526) |
| – Consolidated group | (27,461,478) | (14,905,526) |
| Prima facie tax payable on profit before income tax at 30% (2008: 30%) | (8,238,443) | (4,471,658) |
| – Consolidated group | (8,238,443) | (4,471,658) |
| Add: | | |
| Tax effect of: | | |
| – Sundry items | 907,767 | 2,967,410 |
| – Non deductible interest expense | 2,031,045 | - |
| – Difference in overseas tax rate | 206,046 | - |
| – Share based payments | 1,055,585 | - |
| | (4,038,000) | (1,504,248) |
| Deferred tax asset in relation to tax losses and temporary differences not recognized | 4,038,000 | 1,504,248 |
| Income tax attributed to entity | - | - |
| (c) Deferred tax asset not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in note 1b occur | | |
| – Temporary difference | 3,053,676 | 305,142 |
| – Tax losses | 5,739,798 | 2,552,260 |
| Operating losses | 1,924,150 | 1,674,326 |
| Capital losses | 10,717,624 | 4,531,728 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 5: Discontinued operations

(a) Description

In July 2008, it became apparent that the costs involved to bring the Gango Project back into good standing were uneconomical, therefore the Board decided to write off the exploration and other assets of controlled entities Philaus Holding Corporation and Norte-de-Oro as they were unrecoverable. Discontinued operations represent the write off of all interests and balances held in relation to the Philippine subsidiaries.

(b) Financial performance and cash flow information

| | Consolidated | |
|---|--------------|------------------|
| | 2010 \$ | 2009 \$ |
| Revenue | - | - |
| Expenses | - | (350,519) |
| Loss before income tax | - | (350,519) |
| Income tax expense | - | - |
| Loss from discontinued operation | - | (350,519) |
| Net cash inflow/(outflow) from ordinary activities | - | - |
| Net cash inflow/(outflow) from investing activities | - | - |
| Net cash inflow/(outflow) from financing activities | - | - |

Note 6: Non-current assets classified as held-for-sale and discontinued operations

| | Consolidated | |
|---|--------------|------------|
| | 2010 \$ | 2009 \$ |
| Investment in Vanmag | 9,758,024 | 10,269,919 |
| Liabilities directly associated with Vanmag | 557,754 | 727,129 |
| | 557,754 | 727,129 |

During the prior period, the Group negotiated and entered into a sales agreement in respect of the disposal of its interest in the Vanmag Iron Ore Project in South Africa. The asset was then transferred from exploration expenditure to non-current assets classified as held for sale. The agreement has been extended due to regulatory approvals and as at the date of this report settlement is scheduled for mid October 2010.

There are no expenses in relation to the Vanmag project included in discontinued operations in the Statement of comprehensive income.

During the 2009 year, Continental acquired 49% of the issued capital of Vanadium and Magnetite Exploration Development Co (SA) "Vanmag" instead of direct interest in the area of interest and as a result the investment should be equity accounted for in accordance with AASB 128, *Investments in Associates*. In accordance with the requirements of AASB 128, Continental have not equity accounted Van Mag at 30 June 2010 because the investment is classified as held for sale in accordance with AASB 5.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 7: Key Management Personnel Compensation

(a) Names and positions held of consolidated and parent entity key management personnel in office at any time during the financial year are:

| Key Management Person | Position |
|---|--|
| Andrew Macaulay | Executive Chairman |
| Peter Landau | Executive Director |
| Bruce Buthelezi | Executive Director |
| Jason Brewer (<i>from 16 December 2009</i>) | Executive Director |
| Manuel Lamboley | Non-Executive Director |
| Simon Durack (<i>to 16 December 2009</i>) | Non-Executive Director |
| Anthony Eastman | Joint Company Secretary |
| Jane Flegg | Joint Company Secretary |
| Lodewyk 'Don' Turvey (<i>from 11 May 2010</i>) | Chief Executive Officer |
| Martin Westerman | Chief Financial Officer / Non – Executive Director (<i>from 19 January 2010</i>) South African Subsidiary |
| Mike Nell (<i>from 14 January 2010</i>) | Chief Operating Officer |
| Martin Van Der Poel (<i>to 19 January 2010</i>) | Non-Executive Director South African Subsidiary |
| Petrus Snyder (<i>to 14 January 2010</i>) | Chief Operating Officer |

(b) Key Management Personnel Compensation

| | Consolidated | |
|------------------------------|--------------|------------|
| | 2010 \$ | 2009 \$ |
| Short-term employee benefits | 1,837,244 | 1,136,100 |
| Post-employment benefits | 56,068 | 16,355 |
| Share-based payments | 171,118 | 32,813 |
| | 2,064,430 | 1,185,268 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 7: Key Management Personnel Compensation (cont.)

(c) Options and Rights Holdings

Number of options held by Key Management Personnel

| | Balance 1/7/09 | Granted as Compensation | Options Exercised | Net Change Other* | Balance 30/6/10 | Total Vested 30/6/10 | Total Exercisable 30/6/10 | Total Unexercisable 30/6/10 |
|-------------------------|-------------------|-------------------------------|----------------------|-------------------------|--------------------|----------------------------|---------------------------------|-----------------------------------|
| Peter Landau | 10,000,000 | - | - | (10,000,000) | - | - | - | - |
| Andrew Macaulay | - | - | - | - | - | - | - | - |
| Bruce Buthelezi | - | - | - | - | - | - | - | - |
| Jason Brewer | - | - | - | - | - | - | - | - |
| Manuel Lamboleys | 4,000,000 | - | - | (4,000,000) | - | - | - | - |
| Simon Durack | - | - | - | - | - | - | - | - |
| Anthony Eastman | - | - | - | - | - | - | - | - |
| Jane Flegg | - | - | - | - | - | - | - | - |
| Lodewyk 'Don' Turvey | - | - | - | - | - | - | - | - |
| Martin Westerman | - | 5,000,000 | - | - | 5,000,000 | 2,500,000 | 2,500,000 | 2,500,000 |
| Mike Nell | - | 15,000,000 | - | - | 15,000,000 | - | - | 15,000,000 |
| Martin Van Der Poel | - | - | - | - | - | - | - | - |
| Petrus Snyder | 5,000,000 | - | - | (5,000,000) | - | - | - | - |
| Total | 19,000,000 | 20,000,000 | - | (19,000,000) | 20,000,000 | 2,500,000 | 2,500,000 | 17,500,000 |

* The Net Change Other column above includes those options that have been forfeited or expired by holders as well as options issued during the year under review, or represents option holdings at the time Mr P Snyders resigned.

| | Balance 1/7/08 | Granted as Compensation | Options Exercised | Net Change Other* | Balance 30/6/09 | Total Vested 30/6/09 | Total Exercisable 30/6/09 | Total Unexercisable 30/6/09 |
|---------------------|-------------------|-------------------------------|----------------------|-------------------------|--------------------|----------------------------|---------------------------------|-----------------------------------|
| Peter Landau | 10,000,000 | - | - | - | 10,000,000 | 10,000,000 | 10,000,000 | - |
| Andrew Macaulay | - | - | - | - | - | - | - | - |
| Bruce Buthelezi | - | - | - | - | - | - | - | - |
| Manuel Lamboleys | 4,000,000 | - | - | - | 4,000,000 | 4,000,000 | 4,000,000 | - |
| Simon Durack | - | - | - | - | - | - | - | - |
| Dr Richard Napier | 6,000,000 | - | - | (6,000,000) | - | - | - | - |
| Anthony Eastman | - | - | - | - | - | - | - | - |
| Jane Flegg | - | - | - | - | - | - | - | - |
| Martin Van Der Poel | - | - | - | - | - | - | - | - |
| Martin Westerman | - | - | - | - | - | - | - | - |
| Petrus Snyder | - | 5,000,000 | - | - | 5,000,000 | - | - | 5,000,000 |
| Total | 20,000,000 | 5,000,000 | - | (6,000,000) | 19,000,000 | 14,000,000 | 14,000,000 | 5,000,000 |

* The Net Change Other represents option holdings at the time the key management personnel resigned.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 7: Key Management Personnel Compensation (cont.)

(d) Shareholdings

Number of shares held by Key Management Personnel

| | Balance 1/7/09 | Received as compensation | Options exercised | Net Change Other* | Balance 30/6/10 |
|----------------------|-------------------|-----------------------------|----------------------|----------------------|--------------------|
| Peter Landau | - | - | - | - | - |
| Andrew Macaulay | - | - | - | - | - |
| Bruce Buthelezi | - | - | - | - | - |
| Jason Brewer | - | - | - | - | - |
| Manuel Lamboleys | - | - | - | - | - |
| Simon Durack | - | - | - | - | - |
| Dr Richard Napier | - | - | - | - | - |
| Anthony Eastman | 70,000 | - | - | - | 70,000 |
| Jane Flegg | 20,000 | - | - | - | 20,000 |
| Lodewyk 'Don' Turvey | - | - | - | - | - |
| Martin Westerman | - | - | - | - | - |
| Mike Nell | - | - | - | - | - |
| Martin Van Der Poel | - | - | - | - | - |
| Petrus Snyder | - | - | - | - | - |
| Total | 90,000 | - | - | - | 90,000 |

* The Net Change Other refers to shares purchased or sold during the financial year.

| | Balance 1/7/08 | Received as compensation | Options exercised | Net Change Other* | Balance 30/6/09 |
|---------------------|-------------------|-----------------------------|----------------------|----------------------|--------------------|
| Peter Landau | - | - | - | - | - |
| Andrew Macaulay | - | - | - | - | - |
| Bruce Buthelezi | - | - | - | - | - |
| Manuel Lamboleys | - | - | - | - | - |
| Simon Durack | - | - | - | - | - |
| Dr Richard Napier | - | - | - | - | - |
| Anthony Eastman | 70,000 | - | - | - | 70,000 |
| Jane Flegg | 20,000 | - | - | - | 20,000 |
| Martin Van Der Poel | - | - | - | - | - |
| Martin Westerman | - | - | - | - | - |
| Petrus Snyder | - | - | - | - | - |
| Total | 90,000 | - | - | - | 90,000 |

* The Net Change Other refers to shares purchased or sold during the financial year.

(e) Consulting fees

Please refer to note 34(d) which details consulting fees to parties related to Key Management Personnel.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 8: Auditor's Remuneration

| | Consolidated | |
|---|----------------|----------------|
| | 2010 \$ | 2009 \$ |
| Amounts paid or payable to: | | |
| Remuneration of the auditor of the parent entity for: | | |
| (BDO Audit (WA) Pty Ltd) | | |
| Auditing and reviewing the financial report | 123,091 | 106,833 |
| Remuneration of the auditor of the subsidiary Continental Coal Ltd for: | | |
| (KPMG – South Africa (Inc)) | | |
| Auditing fee | 89,010 | - |
| Other Services – Taxation compliance matters | 54,615 | 69,929 |
| | 266,716 | 176,762 |

Note 9: Earnings/(loss) per Share

| | Consolidated | |
|---|----------------------|----------------------|
| | 2010 \$ | 2009 \$ |
| (a) Reconciliation of loss used in calculating loss per share | | |
| Loss for the year | (27,461,478) | (14,905,526) |
| Loss used to calculate basic EPS | (27,461,478) | (14,905,526) |
| Loss used in the calculation of dilutive EPS | (27,461,478) | (14,905,526) |
| (b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS | No. | No. |
| Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS | 1,022,863,292 | 280,526,554 |
| | 1,022,863,292 | 280,526,554 |
| (c) The Group's potential ordinary shares were not considered dilutive, and as a result, diluted EPS is the same as basic EPS. | | |
| (d) Potential ordinary shares that could dilute EPS in the future | | |
| Weighted average number of ordinary shares (basic) | 1,022,863,292 | 280,526,554 |
| Effect of share options on issue | 772,735,998 | 510,133,333 |
| Effect of consultants shares issued post year end | 2,759,871 | |
| Effect of milestone shares issued post year end | - | 180,000,000 |
| Effect of placement shares issued post year end | - | 155,000,000 |
| Weighted average number of ordinary shares (diluted) at 30 June | 1,798,359,161 | 1,125,659,887 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 10: Cash and Cash Equivalents

| | Consolidated | |
|---|---------------|---------------|
| | 2010 \$ | 2009 \$ |
| Cash at bank and in hand | 39,822 | 89,782 |
| | 39,822 | 89,782 |
| The weighted interest rate on Maxi Direct High Interest Account was 2.50% (2009: 2.15%); these funds are on call. | | |
| Reconciliation of cash | | |
| Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows: | | |
| Cash and cash equivalents (i) | 39,822 | 89,782 |
| | 39,822 | 89,782 |

(i) Subsequent to year end \$38m has been received after successful completion of a placement to sophisticated and institutional investors raising \$22m before costs, and \$16m in the group's Share Purchase Plan, see note 33 Events occurring after the reporting date.

Note 11: Trade and Other Receivables

| | Consolidated | |
|-----------------------|----------------|------------------|
| | 2010 \$ | 2009 \$ |
| CURRENT | | |
| Trade receivables | - | - |
| | - | - |
| Other receivables (a) | 890,887 | 1,536,983 |
| | 890,887 | 1,536,983 |

(a) The majority of other receivables relates to VAT recoverable by the South African subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 12: Prepaid Borrowing costs

The group has incurred transaction costs to obtain borrowings in both the prior and current period, as set out below. The Group has recorded these costs over the life of the loans using the effective interest method in accordance with the accounting policy as disclosed in note 1(q).

(a) Secured debt facility

The Group incurred the following borrowing costs to secure the \$20 million AUD secured debt facility (of which \$6.8m has been repaid) disclosed in note 23:

| | Consolidated | |
|-------------------------------------|--------------|------------|
| | 2010 \$ | 2009 \$ |
| Share-based payments ⁽ⁱ⁾ | 4,465,452 | 5,010,684 |
| Brokerage and other fees | - | 1,310,000 |
| Total | 4,465,452 | 6,320,684 |

The transaction costs have been amortised over the two year life of the loan, resulting in \$7,546,054 of expense recognised at 30 June 2010 (2009: \$1,448,490) on top of interest that has been paid or accrued for on this loan at 30 June 2010.

The effective interest rate on this loan is 46% (2009: 36%).

At 30 June 2010, the remaining amortisation period is approximately 0.5 years (2009: 1.5 years).

2010

(i) includes 70 million unlisted options issued with a value of \$2,620,452 as disclosed in note 32 and 70 million listed options in lieu of interest issued with a value of \$1,845,000 as disclosed in note 32.

2009

(j) includes 50 million options issued with a value of \$1,350,000 as disclosed in note 32 and 80 million options issued with a value of \$3,660,864 as disclosed in note 32.

(b) Secured loan other

In year 2009, the Group has incurred the following borrowing costs to secure the \$1.6 million AUD loan disclosed in note 23:

| | Consolidated | |
|-------------------------------------|--------------|------------|
| | 2010 \$ | 2009 \$ |
| Share-based payments ⁽ⁱ⁾ | - | 944,014 |
| Brokerage and other fees | - | 121,000 |
| Total | - | 1,065,014 |

The \$1,065,014 has been amortised over the 180 day life of the loan, resulting in \$857,928 of expense recognised at 30 June 2010 (2009: \$207,086) on top of the interest that has been paid or accrued for on this loan at 30 June 2010.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 12: Prepaid Borrowing costs (cont.)

(b) Secured loan other (cont.)

The effective interest rate on this loan is 79% (2009: 167%).

At 30 June 2010, the costs have been fully amortised. At 30 June 2009 the remaining amortisation period was approximately 0.4 years.

2009

(j) includes 20 million options issued post year end with a value of \$944,014 as disclosed in note 32.

(c) Reconciliation to the amounts shown in the statement of financial position

| | Consolidated 2010 | | |
|--|-----------------------|--------------------|-------------|
| | Secured debt facility | Secured loan other | Total |
| Opening Balance | 4,872,194 | 857,928 | 5,730,122 |
| Transaction costs incurred during the period | 4,465,452 | - | 4,465,452 |
| Accumulated expense | (7,546,054) | (857,928) | (8,403,982) |
| | 1,791,592 | - | 1,791,592 |
| | Secured debt facility | Secured loan other | Total |
| Current - Prepaid Interest | 26,357 | - | 26,357 |
| Current - Borrowing Costs | 1,749,287 | - | 1,749,287 |
| Total Current | 1,775,644 | - | 1,775,644 |
| Non-current – Prepaid Interest | 6,589 | - | 6,589 |
| Non-current - Borrowing Costs | 9,359 | - | 9,359 |
| Total Non-current | 15,948 | - | 15,948 |
| | 1,791,592 | - | 1,791,592 |
| | Consolidated 2009 | | |
| | Secured debt facility | Secured loan other | Total |
| Total borrowing costs | 6,320,684 | 1,065,014 | 7,385,698 |
| Accumulated expense | (1,448,490) | (207,086) | (1,655,576) |
| | 4,872,194 | 857,928 | 5,730,122 |
| | Secured debt facility | Secured loan other | Total |
| Current | 3,160,342 | 857,928 | 4,018,270 |
| Non-current | 1,711,852 | - | 1,711,852 |
| | 4,872,194 | 857,928 | 5,730,122 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 13: Available-for-sale Financial Assets

| | Consolidated | |
|--|--------------|------------|
| | 2010 \$ | 2009 \$ |
| NON-CURRENT | | |
| Available-for-sale financial assets | 113,437 | 192,188 |
| | 113,437 | 192,188 |
| Available-for-sale financial assets comprise: | | |
| NON-CURRENT | | |
| Listed investments, at fair value | | |
| – Shares in listed Australian corporations | 113,437 | 192,188 |
| | 113,437 | 192,188 |

Note 14: Business combination

(a) Summary of Acquisition

In the 2009 financial year the parent entity acquired 74% of the issued capital of Continental Coal Limited a company incorporated in South Africa.

The Group recognised a net loss of \$1,347,780 by the acquired business for the period 27 January 2009 to 30 June 2009. This loss included operating expenses and impairment of exploration and development costs for various coal properties.

This business combination was provisionally accounted for at 30 June 2009.

(b) Purchase consideration

The purchase is a non-cash transaction. As approved by shareholders at the Group's Annual General Meeting on 28 November 2008 the aggregate consideration payable for the acquisition is the issue of 360million ordinary fully paid shares and 120million unlisted facilitation options (60million exercisable at 15 cents on or before 19 October 2011 and 60million exercisable at 20 cents on or before 19 October 2011). As at 30 June 2009 180million ordinary fully paid shares, 60million unlisted options exercisable at 15 cents on or before 19 October 2011 and 60million unlisted options exercisable at 20 cents on or before 19 October 2011 had been issued.

The 180million milestone shares were issued during the 2010 financial year however were provided for in the prior period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 14: Business combination (cont.)

(b) Purchase consideration (cont.)

| | 2010 \$ | 2009 \$ |
|---|------------|------------|
| Purchase consideration | | |
| Issue of 360m ordinary shares | - | 18,540 |
| Issue of 60m unlisted facilitation options exercisable at 15 cents on or before 19 October 2011 | - | 660 |
| Issue of 60m unlisted facilitation options exercisable at 20 cents on or before 19 October 2011 | - | 540 |
| Plus intercompany receivable discount | - | 2,501 |
| Total purchase consideration | - | 22,241 |
| Fair value of net assets acquired | - | 8,576 |
| Capitalised exploration expenditure | - | 13,665 |

The value of the 360m ordinary shares was determined by share price on date of issue.

The value of the unlisted options was determined by using the Black-Scholes option pricing model refer to note 28 for inputs.

There were no direct costs incurred in relation to the acquisition.

| | Consolidated | |
|---|--------------|------------|
| | 2010 \$ | 2009 \$ |
| Outflow of cash to acquire subsidiary, net of cash acquired | | |
| Cash consideration | - | - |
| Balance acquired cash | - | 517,190 |
| Inflow of cash | - | 517,190 |

(c) Assets and liabilities acquired

| | Acquiree's carrying amount \$ | Fair Value \$ |
|-------------------------------------|-------------------------------------|------------------|
| Cash | 517,190 | 517,190 |
| Plant and equipment | 226,726 | 226,726 |
| Exploration expenditure | 17,037,815 | 17,037,815 |
| Trade Payables | (955,777) | (955,777) |
| Prepayments | 36,169 | 36,169 |
| Deposits | 43,315 | 43,315 |
| Foreign Exchange | 174,035 | 174,035 |
| Payable to Continental Coal Limited | (8,503,388) | (8,503,388) |
| | 8,576,085 | 8,576,085 |
| Non-controlling Interests | nil | nil |

The fair values of assets and liabilities acquired are based on historical cost which is representative of the fair value. No acquisition provisions were created.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 15: Controlled Entities

The consolidated financial statements include the assets, liabilities and results of the following subsidiaries as disclosed in note 1(a).

| Controlled Entities Consolidated | Country of Incorporation | Percentage Owned (%)* | |
|--|--------------------------|-----------------------|------|
| | | 2010 | 2009 |
| Subsidiaries of Continental Coal Limited: | | | |
| Continental Coal Ltd ^{(i) (ii) (iii)} | South Africa | 74 | 74 |
| Subsidiaries of Continental Coal Ltd | | | |
| Tsimpilo Trading 45 (Pty) Limited | South Africa | 100 | 100 |
| Taboo Trading 137 (Pty) Ltd | South Africa | 100 | 100 |

* Percentage of voting power is in proportion to ownership

- (i) Restrictions on the ability of Continental Coal SA to transfer funds back to Continental Coal Aus are subject to South African Reserve Bank approval. Approval has been sought and granted for up to AU\$20million and a new application has been submitted to further increase the working capital loan agreement to meet all the capital and operational needs of the group
- (ii) At 30 June 2010, the 26% non-controlling interest in Continental Coal had a value of (\$2,614,968) (2009: nil due to the net liability position of Continental Coal Ltd (SA)).
- (iii) At 30 June 2010, a loss of \$2,605,328 (2009: nil) attributable to the non-controlling interest.

Note 16: Exploration Expenditure

| | Consolidated | |
|--|--------------|------------------------|
| | 2010 \$ | 2009 \$ Restated |
| NON-CURRENT | | |
| Exploration expenditure capitalised | | |
| – Exploration and evaluation phases – direct | 28,645,092 | 23,989,791 |
| – Exploration and evaluation phases – in direct (i) | 18,943,886 | 10,723,624 |
| Total exploration expenditure | 47,588,978 | 34,713,415 |
| (a) Movements in carrying amounts | | |
| Balance at 1 July | 34,713,415 | 12,056,009 |
| Exploration expenditure capitalised | 24,036,555 | 4,330,670 |
| On 74% acquisition of Continental Coal Ltd in South Africa | - | 32,964,709 |
| Exploration expenditure impaired ^{(i) (ii) (iii)} | (1,924,276) | (4,368,053) |
| Transfers to held for sale assets (Note 6) | - | (10,269,919) |
| Transfers to development expenditure | (9,059,226) | - |
| Impacts of movements in foreign exchange rates on non AUD balances | (177,490) | |
| Carrying amount at 30 June | 47,588,978 | 34,713,415 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 16: Exploration Expenditure (cont.)

(a) Movements in carrying amounts (cont.)

Recoverability of the carrying amount of exploration assets is dependent on the successful development and commercial exploration or sale of the respective mining permits. Amortisation of costs carried forward for the development phase is not being charged pending the commencement of production.

2010

(i) Not economically viable - in Witbank, Uitkomst, Canyon Springs and Loskop created an impairment charge of \$1,924,276.

2009

(ii) Abandonment of Bow River Diamond project created an impairment charge of \$3,218,427;
Abandonment of Kandundwa project created an impairment charge of \$46,882;
Abandonment of Nigeria Uranium created an impairment charge of \$486,234;
Abandonment of Liberia Iron Ore created an impairment charge of \$299,631; and
Abandonment of tenements held in Philiaus Holding Corporation and Norte de Oro Mining and Industrial Corporation created an impairment charge of \$324,788

(iii) Not economically viable or not able to prove ownership - in Loskop, Springbok Flats, Vlakplaats created an impairment charge of \$316,879.

In respect of the Vlakplaats project mineral rights the DMR has granted consent for the transfer of the prospecting right granted to Universal Pulse Trading 132 (Pty) Limited to Continental Coal. The formal transfer will be done (if Continental proceeds) once the full purchase price has been paid. The original purchase price was set at R130 million (A\$19,890,000) of which approximately R52.8 million (A\$8,123,000) has been paid as at year end.

Mineral rights held by South African subsidiary

| Project name | Prospecting or mining right reference | Current holder of mining or prospecting right | Holder of mining right once transaction is completed |
|-----------------|---------------------------------------|---|--|
| Vlakvarkfontein | No 300 MR | Ntshovelo Mining Resources (Pty) Ltd | Ntshovelo Mining Resources (Pty) Ltd |
| Vaalbank | MP 30/5/1/1/2/472 MR | Misty Sea Trading 262 (Pty) Ltd | Kebragen (Pty) Ltd. |
| Project X | MP 30/5/1/1/2/468 MR | Misty Sea Trading 262 (Pty) Ltd | Idada Trading 310 (Pty) Ltd |
| Vlakplaats | MP 30/5/1/1/2/1520 PR | Universal Pulse Trading 132 (Pty) Ltd | Continental Coal Limited |
| Lemoenfontein | MP 30/5/1/2/2/471 MR | Xivono Mining (Pty) Ltd | City Square Trading 437 (Pty) Ltd |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 16: Exploration Expenditure (cont.)

(i) Exploration and Evaluation phases indirectly held through 49% holding in Misty Sea 262 (Pty) Ltd Consolidated

| Name of company | Listed/ Unlisted | Country of Incorporation | 30 June 2010 | | 30 June 2009 | |
|---|---------------------|-----------------------------|------------------|-----------------|--------------|--------------|
| | | | Percentage owned | Carrying amount | 30 June 2010 | 30 June 2009 |
| | | | % | | \$ | \$ |
| Misty Sea 262 (Pty) Ltd | Unlisted | South Africa | 49 | 49 | 18,943,870 | 10,723,608 |
| City Square –Trading 437 (Pty) Limited | Unlisted | South Africa | 50 | 50 | 8 | 8 |
| Idada Trading 310 (Pty) Limited | Unlisted | South Africa | 50 | 50 | 8 | 8 |
| | | | | | 18,943,886 | 10,723,624 |

In the 2009 financial year Continental Coal Ltd South Africa entered into a purchase agreement to acquire a 49% shareholding in Misty Sea Trading 262 (Pty) Ltd. The shareholding only entitles the Group the right of ownership in the prospecting rights of MP30/5/1/2/1640 PR and MP30/5/1/2/1689 PR. The intention is that once the section 11 application is successful, the prospecting rights would be transferred to a new entity. Continental Coal would hold 50% equity share in the new entity and would sell their 49% share of Misty Sea to the original seller at a nominal value. The shareholders agreement indemnifies Continental Coal against any other liability of Misty Sea but also does not entitle them to any other asset of the Group.

As the assets and liabilities are ringfenced the following list of assets and liabilities are acquired:-

| | |
|--|-------------|
| Payments in respect of acquiring prospecting rights of Project X and Vaalbank | 14,779,800 |
| Deferred payment consideration accrued for | 7,509,534 |
| Adjustment to purchase price | 918,000 |
| Subsequent exploration costs capitalised for both Project X and Vaalbank* | 3,274,190 |
| Impairment of social development plan | (28,104) |
| | 26,453,420 |
| Liabilities in respect of deferred payment consideration and adjusted purchase price | (7,509,534) |
| | 18,943,886 |

In 2010 Continental Coal Ltd South Africa exercised their option to acquire an additional 20% in Project X and 25% in the Vaalbank project by increasing their shareholding in Idada (Pty) Limited and the proposed new Group called Kebragen (Pty) Limited. Included in the payments above are prepayments for the increased shareholding. Management is finalising the purchase contracts and transfer of share certificates in the 2011 financial year.

*Includes capitalised interest of 374,806.

In the 2009 accounts Exploration and Evaluation phases indirectly held through 49% holding in Misty Sea 262 (Pty) Ltd was disclosed as Investment in Associates and in the 2010 accounts now disclosed as Exploration. This more accurately reflects what Continental Coal receive for their 49% shareholding which is rights to tenements only.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 17: Development Expenditure

| | Consolidated | |
|--|--------------|------------|
| | 2010 \$ | 2009 \$ |
| NON-CURRENT | | |
| – Development expenditure at cost | 9,059,226 | - |
| Total development expenditure | 9,059,226 | - |
| (a) Movements in carrying amounts | | |
| Balance at 1 July | - | - |
| Transfers from exploration expenditure | 9,059,226 | - |
| Carrying amount at 30 June | 9,059,226 | - |

The Development expenditure relates mainly to the mining infrastructure assets under construction for the Vlakvarkfontein project and the environmental assets for closure costs.

Recoverability of the carrying amount of development assets is dependent on the successful development and commercial exploration or sale of the respective mining permits. Amortisation of costs carried forward for the development phase is not being charged pending the commencement of commercial production.

Note 18: Property, Plant & Equipment

| | Consolidated | |
|-----------------------------------|--------------|------------|
| | 2010 \$ | 2009 \$ |
| PLANT AND EQUIPMENT | | |
| Plant and equipment: | | |
| Opening net book amount | 293,779 | 350,282 |
| Additions | 135,007 | - |
| Depreciation | (75,776) | (56,503) |
| Total plant and equipment | 353,010 | 293,779 |
| Total Property, Plant & Equipment | 353,010 | 293,779 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 18: Property, Plant & Equipment (cont.)

(a) Movements in Carrying Amounts

| | Plant and Equipment | Total |
|---|---------------------|----------------|
| | \$ | \$ |
| <i>Consolidated Group:</i> | | |
| Balance at 1 July 2008 | 6,094 | 6,094 |
| Additions | 1,559 | 1,559 |
| On 74% acquisition of Continental Coal Ltd in South Africa | 226,726 | 226,726 |
| Subsequent to 74% acquisition of Continental Coal Ltd in South Africa | 84,827 | 84,827 |
| Depreciation expense | (25,427) | (25,427) |
| <i>Balance at 30 June 2009</i> | <i>293,779</i> | <i>293,779</i> |
| Additions | 135,007 | 135,007 |
| Depreciation expense | (75,776) | (75,776) |
| <i>Balance at 30 June 2010</i> | <i>353,010</i> | <i>353,010</i> |

(b) Security

Refer to borrowings note 23 for details of non-current assets pledged as security.

Note 19: Other Financial Assets

| | Consolidated | |
|---|--------------|------|
| | 2010 | 2009 |
| | \$ | \$ |
| Deposit paid for equity investment | | |
| At cost | 8,835,750 | - |
| Total | 8,835,750 | - |

The other financial assets relates to the prepayment in respect of the Vlakvarkfontein project acquisition where the Group will acquire a shareholding of 50% in Ntshovelo Mining Resources (Pty) Limited ("Ntsovelo") and a 60% economic interest. The additional 10% economic interest is for compensation in respect of managing the project. R16 million (AUD \$2,401,600) was paid during the year. The balance was settled on 25 August 2010.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 20: Trade and Other Payables

| | Consolidated | |
|---|--------------|------------|
| | 2010 \$ | 2009 \$ |
| CURRENT | | |
| Unsecured liabilities | | |
| Trade payables | 4,762,409 | 2,810,777 |
| Option Fee – Lemoenfontein ⁽ⁱ⁾ | 9,298 | - |
| Sundry payables and accrued expenses | 2,268,010 | 745,816 |
| Deferred purchase liability – Vlakvarkfontein ⁽ⁱⁱ⁾ | 6,120,000 | - |
| Accrued interest | 855,029 | 738,607 |
| | 14,014,746 | 4,295,200 |
| Accruals relating to held for sale assets (note 6) | 557,754 | 727,129 |
| | 14,572,500 | 5,022,329 |
| NON-CURRENT | | |
| Unsecured liabilities | | |
| Option Fee – Lemoenfontein ⁽ⁱ⁾ | - | 4,810 |
| Sundry payables and accrued expenses | - | 681,289 |
| Accrued interest | - | 528,808 |
| | - | 1,214,907 |

(i) In the 2009, the Group has granted an option to United Expansion Company Limited where they have the option to elect a 5% equity holding in City Square Trading 437 (Pty) Ltd or cash for services rendered in respect of the day to day trading of prospecting and development and submission of the mining license and general project management in respect of the Lemoenfontein prospecting right. United Expansion has the option to decide within two years from date of signature of the option agreement if they would choose the option of equity or cash.

United Expansion has the option to decide within two years from date of signature of the option agreement if they would choose the option of equity or cash. For the 2009 financial year, R30 385 (AUD \$4,810) was therefore classified as current and the balance as non-current.

In 2010 as the option has not been exercised the balance has been reclassified to current.

The fair value of the option would be reassessed on an annual basis. Management assessed that the fair value has not changed from the previous period as the CPR and drilling activities have not changed nor the estimated value of services to be rendered.

(ii) Relates to the balance of the acquisition cost of the Vlakvarkfontein Coal mine.

Risk Exposure

Refer note 36.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 21: Deferred Revenue

Deferred revenue relates to the prepayment of the sale of the first 100,000 tonnes of run-of-mine coal from the Vlakvarkfontein coal mine.

| | Consolidated | |
|-----------------------------------|--------------|------------|
| | 2010 \$ | 2009 \$ |
| Deferred income – Vlakvarkfontein | 1,606,500 | - |
| | 1,606,500 | - |

This amount has been offset against development expenditure at 30 June 2010 as Vlakvarkfontein had not yet achieved commercial production.

Note 22: Provision for Rehabilitation

Relates to environmental liability for the Vlakvarkfontein Coal Mine. South African mining companies are required by law to undertake rehabilitation work as part of their ongoing operations. The expected timing of the cash outflows in respect of the provision is on the closure of the mining operations. Management has assessed that no environmental liability exists for the other projects as only exploration activities have been performed and rehabilitation has taken place as damages were incurred. Refer Statement of Significant Accounting Policies note 1(g).

| | Consolidated | |
|--|--------------|------------|
| | 2010 \$ | 2009 \$ |
| Mining rehabilitation fund – Vlakvarkfontein | 2,231,672 | - |
| | 2,231,672 | - |

Movement in the provision for rehabilitation during the financial year are set out below:

Non-current

| | | |
|--|-----------|---|
| Carrying amount at the start of the year | - | - |
| Additional provision recognised | 2,231,672 | - |
| Carrying amount at the end of the year | 2,231,672 | - |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 23: Borrowings

| | Note | Consolidated | |
|---|-------|--------------|------------|
| | | 2010 \$ | 2009 \$ |
| CURRENT | | | |
| Secured loans from related parties 2010 (i) | 34(e) | 915,000 | 949,801 |
| Unsecured loans other 2010 (iii) (vi) (vii) 2009 (iv) | | 3,121,176 | 4,581,094 |
| Secured loan other 2009 (ii) (v) | | 2,558,696 | 2,628,950 |
| Debt facility - secured 2010 (viii) | | 13,200,000 | - |
| | | 19,794,872 | 8,159,845 |

2010

- (i) Loan is secured with pledge over shares in Vanmag, interest bearing at 10% per annum and repayable on or before 31 December 2010 in South African Rand 6,000,000.
- (iii) Loan is interest bearing at 10% per annum and repayable on or before 31 December 2010 in USD 2,500,000.
- (vi) Loan is interest bearing at 12% per annum and repayable on or before 30 June 2011 in AUD 203,000. Part or all of the principal and interest may be converted to equity at the election of the Lender.
- (vii) Loan is interest bearing at 10% per annum and repayable on or before 31 December 2010 in AUD 2,558,696.
- (viii) Debt facility is secured with pledge over the 74% shareholding in the Continental Coal Limited subsidiary, interest bearing at 12% per annum and repayable on or before 16 January 2011 in AUD \$13,200,000. The lender also has a fixed and floating charge over all assets of the parent company. Upon exercise of the call options issued under this facility the lender has the option to settle all or part of the debt from exercise price.

2009

- (ii) Loan is interest bearing at 10% per annum and repayable on or before 31 December 2009 in South African Rand 5,000,000. Part or all of the principal and interest may be converted to equity at the election of the Lender.
- (iv) Loan is interest bearing at 10% per annum and repayable on or before 31 December 2009 in AUD 1,500,000
- (v) Loan is interest bearing at a set amount of \$400k and repayable on or before 20 October 2009 in AUD 1,600,000. Part or all of the principal and interest may be converted to equity at the election of the Lender. The loan becomes due and payable on the earlier of the due date or the completion of the Vanmag sale or Continental Coal, or any of its subsidiaries, raising no less than AUD \$4m in debt or equity.

| | Consolidated | |
|-----------------------------|--------------|------------|
| | 2010 \$ | 2009 \$ |
| NON-CURRENT | | |
| Debt Facility – secured (i) | - | 13,000,000 |
| Loan other – unsecured (ii) | - | 203,000 |
| | - | 13,203,000 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 23: Borrowings (cont.)

- (i) Debt facility is secured with pledge over the 74% shareholding in the Continental Coal Limited subsidiary, interest bearing at 12% per annum and repayable on or before 16 January 2011 in AUD \$13,200,000. The lender also has a fixed and floating charge over all assets of the parent company. Upon exercise of the call options issued under this facility the lender has the option to settle all or part of the debt with the proceeds. Reassigned to current at 30 June 2010.
- (ii) Loan is interest bearing at 12% per annum and repayable on or before 30 June 2011 in AUD 203,000. Reassigned to current at 30 June 2010.

Note 24: Issued capital

| | Consolidated | |
|--|---------------|-------------|
| | 2010 \$ | 2009 \$ |
| 1,376,191,741 (2009: 446,285,001) fully paid ordinary shares | 100,829,337 | 54,154,598 |
| | 100,829,337 | 54,154,598 |
| (a) Movement 2010 | | |
| | No. | \$ |
| Balance at 1 July 2009 | 446,285,001 | 54,154,598 |
| Shares issued during year: | | |
| 10/07/09 – Placement with institutional and sophisticated investors at 5 cents per ordinary fully paid share (i) | 96,000,000 | 4,800,000 |
| 28/07/09 – Finder's fee for coal asset acquisitions at 4.3 cents per ordinary share (ii) | 20,000,000 | 860,000 |
| 06/08/09 - Placement with institutional and sophisticated investors at 5 cents per ordinary fully paid share (i) | 65,000,000 | 3,250,000 |
| 29/07/09 – Milestone for the acquisition of 74% of Continental Coal Limited SA (iii) | 180,000,000 | 11,340,000 |
| 20/11/09 – Conversion of debt to equity at 5 cents per ordinary share (iv) | 78,124,266 | 3,902,213 |
| 20/11/09 - Placement with institutional and sophisticated investors at 6 cents per ordinary fully paid share (i) | 133,333,333 | 8,000,000 |
| 06/08/09 – Issued to consultants at 5.9 cents per ordinary fully paid share (vi) | 11,000,000 | 644,000 |
| 02/12/09 - Placement with institutional and sophisticated investors at 6 cents per ordinary fully paid share (i) | 8,333,332 | 500,000 |
| 08/12/09 and 15/01/10 – Conversion of \$6.8m debt facility at 5 cents per ordinary share (v) | 136,000,000 | 6,800,000 |
| 06/05/10- Issued to consultants at 5 cents per ordinary fully paid share (vi) | 10,000,000 | 500,000 |
| 06/05/10 - Placement with institutional and sophisticated investors at 5 cents per ordinary fully paid share (i) | 60,745,000 | 3,037,250 |
| 10/06/10- Conversion of debt to equity at an average of 4.1 cents per ordinary share (iv) | 108,670,809 | 3,762,188 |
| 30/06/10 - Placement with institutional and sophisticated investors at 5 cents per ordinary fully paid share (i) | 22,700,000 | 1,135,000 |
| Less share issue costs | - | (1,775,911) |
| Balance at 30 June 2010 | 1,376,191,741 | 100,829,337 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 24: Issued capital (cont.)

- (i) During the year, the Group offered various placements to institutional and sophisticated investors to secure and develop the Group's South African Coal assets and working capital.
- (ii) During the year, the Group issued shares as a finders' fee for acquiring coal assets.
- (iii) As approved by shareholders at the Group's Annual General Meeting on 28 November 2008 180m ordinary fully paid shares were issued as milestone consideration for the 74% acquisition of Continental Coal Ltd in South Africa.
- (iv) During the year, the group extinguished several loans by means of conversion of debt to equity
- (v) During the year, the group converted part of its debt facility by issue of ordinary fully paid shares at the election of the instrument holder
- (vi) During the year, the group issued ordinary fully paid shares as consideration for services provided to the group.

(b) Movement 2009

| | No. | \$ |
|--|-------------|------------|
| Balance at 1 July 2008 | 187,916,668 | 43,209,546 |
| Shares issued during year: | | |
| 8/10/08 - Placement with institutional and sophisticated investors at 8 cents per ordinary fully paid share (i) | 5,003,333 | 400,000 |
| 8/10/08 – Issue to consultants at 6.1 cents per ordinary fully paid share (ii) | 8,365,000 | 510,265 |
| 23/01/09 – Issue in consideration for the 74% acquisition of Continental Coal Ltd SA at 4 cents per share (iii) | 180,000,000 | 7,200,000 |
| 2/06/09 - Placement with institutional and sophisticated investors at 5 cents per ordinary fully paid share (iv) | 65,000,000 | 3,250,000 |
| Less share issue costs | - | (415,213) |
| Balance at 30 June 2009 | 446,285,001 | 54,154,598 |

- (i) During the year, the group offered various placements to institutional and sophisticated investors to raise money for the drilling and feasibility study of the Vanmag Iron Ore Deposit, investments and working capital.
- (ii) On 8 October 2008, the group issued 8,365,000 ordinary fully paid shares as consideration for consultant's fees to the group.
- (iii) As approved by shareholders at the Group's Annual General Meeting on 28 November 2008 180m ordinary fully paid shares were issued on 23 January 2009 in consideration for the 74% acquisition of Continental Coal Ltd in South Africa.
- (iv) The group offered a placement to institutional and sophisticated investors to raise money to secure and develop the Group's South African Coal assets and working capital.

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting of the Group, in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 24: Issued capital (cont.)

(d) Options

Information relating to share options issued, exercised and expired during the financial year refer to the Directors report.

(e) Capital Management

Management control the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Management effectively manage the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year. This strategy is to ensure that the group's gearing ratio remains between 0% and 52%.

The gearing ratios' for the year ended 30 June 2010 and 30 June 2009 are as follows:

| | Note | Consolidated | |
|--------------------------------|-----------|--------------|------------|
| | | 2010 \$ | 2009 \$ |
| Total borrowings | 23 | 19,794,870 | 27,600,081 |
| Less cash and cash equivalents | 10 | (39,822) | (89,782) |
| Net debt | | 19,755,048 | 27,510,299 |
| Total capital | | 100,829,337 | 54,154,598 |
| Gearing ratio | | 20% | 51% |

Note 25: Shares and Options to be Issued

The following shares and options were issued post year end and contracted to be issued prior to year end. As a result, this has been treated as an adjusting post balance date event and so the balances have been taken up in the 30 June 2010 accounts even though they had not been issued at 30 June 2010. The amounts have been classified as equity at 30 June 2010 in accordance with AASB 139, *Financial Instruments: Recognitions and Measurements*.

| | Consolidated | |
|---|--------------|------------|
| | 2010 \$ | 2009 \$ |
| 2,759,871 (2009: 180,000,000) fully paid ordinary shares | 90,000 | 11,690,000 |
| nil (2009: 80,000,000) unlisted options (5 cents, 06/08/2013) | - | 3,660,684 |
| nil (2009: 20,000,000) unlisted options (5 cents, 11/09/2013) | - | 944,014 |
| | 90,000 | 16,294,698 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 25: Shares and Options to be Issued (cont.)

| | Consolidated | |
|---|--------------|------------|
| | 2010 No. | 2010 \$ |
| Consultants fee in relation to Convertible Loan | 2,759,871 | 90,000 |
| | | |
| | Consolidated | |
| | 2009 No. | 2009 \$ |
| 27/9/09 - milestone shares for the 74% acquisition of the Group's subsidiary ⁽ⁱ⁾ | 180,000,000 | 11,690,000 |
| 6/8/09 - unlisted options (5 cents, 6 August 2013) were issued on 6 August 2009 to participants of the Group's debt facility ⁽ⁱ⁾ | 80,000,000 | 3,660,684 |
| 11/9/09 - unlisted options (5 cents, 11 September 2013) were issued to participants of the Group's \$1.6m loan ⁽ⁱ⁾ | 20,000,000 | 944,014 |

(i) Refer note 32 for calculation of value of Share-based payments and refer note 12 for effective interest calculation.

(ii) As disclosed in note 14, the value of these shares has been calculated based on their market value at the time of issue.

Note 26: Reserves

(a) Available for sale investments reserve

The available for sale investments reserve records revaluation of available for sale assets.

(b) Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

(c) Share based payment reserve

The share based payment reserve records items recognised as expenses on fair valuation of shares and options issued as remuneration to employees, directors and consultants.

(d) Option reserve

The option reserve records items recognised as expenses on fair valuation of options issued for cash consideration or that are free attaching.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 26: Reserves (cont.)

Movements

a Available for sale Investments reserve

| | Consolidated \$ |
|--------------------------|--------------------|
| Balance 1 July 2008 | (884,063) |
| Movement in year | 884,063 |
| Balance 30 June 2009 | - |
| Movement in current year | - |
| Balance 30 June 2010 | - |

b Foreign currency translation reserve

| | |
|--|----------|
| Balance 1 July 2008 | (17,651) |
| Transfers to reserve during the year | 252,476 |
| Balance 30 June 2009 | 234,825 |
| Currency translation differences arising during the year | (37,077) |
| Balance 30 June 2010 | 197,748 |

c Share based payments reserve

| | |
|---|------------|
| Balance 1 July 2008 | 3,430,905 |
| Transfers to reserve during the year | 2,708,909 |
| Balance 30 June 2009 | 6,139,814 |
| Options issued to Employees and Consultants during the year (Note 32) | 12,027,579 |
| Balance 30 June 2010 | 18,167,393 |

d Option reserve

| | |
|--------------------------------------|---------|
| Balance 1 July 2008 | 652,602 |
| Transfers to reserve during the year | - |
| Balance 30 June 2009 | 652,602 |
| Movement in current year | - |
| Balance 30 June 2010 | 652,602 |

| | |
|-----------------------------------|------------|
| Total Reserves as at 30 June 2009 | 7,027,241 |
| Total Reserves as at 30 June 2010 | 19,027,383 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 27: Non-controlling Interests

| | Consolidated | |
|--------------------|--------------|------------|
| | 2010 \$ | 2009 \$ |
| Interests in: | | |
| Accumulated losses | 2,605,328 | - |
| Reserves | 9,640 | - |
| | 2,614,968 | - |

Note 28: Capital, Leasing and Other Commitments

During the period, Continental Coal entered into various sales agreements and incurred the following commitments and contingent liabilities:

| Project | Outstanding purchase price | Committed exploration expenditure |
|---------------|---|--|
| Project X | Full purchase price for the 50% stake has been provided for in the financial statements. A balance of ZAR 61 million (A\$9,333,000) remains for the additional 20%. | The group committed to contribute the first ZAR 40 million (A\$6,332,000) of exploration capital, including the Vaalbank exploration costs. As at 30 June 2010 ZAR 21,872,018 (A\$3,346,418) had already been spent. |
| Vaalbank | The previous agreement was based on a rand per ton mined. The payment consideration was renegotiated as ZAR 120m (A\$18,360,000) for 50%. To acquire the additional 25% the group estimates to pay ZAR 56 million (A\$8,568,000). | See above. |
| Lemoenfontein | As at year end, ZAR 1,215,415 (A\$185,958) based on an agreed price of ZAR 5 per ton and an estimated measured resource of 243,083 tons. | The group committed to contribute the first ZAR 10 million (A\$1,583,000) of exploration capital. At 30 June 2010 ZAR 1 million (A\$158,300) had already been spent. |

(a) Capital expenditure commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

Intangible assets payable

Payable:

- Up to 12 months
- Between 12 months and 5 years

| Consolidated | |
|--------------|------------|
| 2010 \$ | 2009 \$ |
| 171,589,869 | 4,196,375 |
| 171,589,869 | 4,196,375 |
| 6,120,000 | - |
| 165,469,869 | 4,196,375 |
| 171,589,869 | 4,196,375 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 28: Capital, Leasing and Other Commitments (cont.)

Summary in South African Rand

| | Vlakvarkfontein | Vaalbank | Project X | Mashala Resources | Lemoenfontein |
|---|-------------------|--------------------|--------------------|--------------------|-------------------|
| Asset acquisition | 40,000,000 | 83,000,000 | 61,000,000 | 400,000,000 | - |
| Farm acquisitions | 11,000,000 | - | - | - | - |
| Rehabilitation guarantee | 3,992,000 | - | - | - | - |
| Exploration, mine design, scheduling and modelling | - | 5,915,000 | 40,000,000 | - | 10,000,000 |
| Site preparation and development, civils and construction | - | 45,305,000 | 29,575,000 | - | - |
| Penumbra capital cost and development | - | - | - | 253,000,000 | - |
| Replacement guarantees and repayment of loans | - | - | - | 51,000,000 | - |
| Other capital | 4,500,000 | - | - | - | - |
| | 59,492,000 | 217,220,000 | 130,575,000 | 704,000,000 | 10,000,000 |

Operating lease payments

Premises: Contractual amounts
Equipment: Contractual amounts

| | 2010 AUD * | 2009 AUD |
|--|----------------|------------------|
| Premises: Contractual amounts | 250,797 | 111,029 |
| Equipment: Contractual amounts | 5,717 | 2,983 |
| | 256,514 | 114,012 |
| Estimated operating lease payments for the following periods are: | | |
| Year 1 | 318,920 | 254,515 |
| Year 2 - 5 | 670,836 | 989,757 |
| | 989,757 | 1,244,271 |

* Denominated in Australian Dollars for leases repayable in South African Rand.

The estimated operating lease payments for future periods are determined by using an average escalation of 10% for each year's projection.

As disclosed in the Directors report the Group appointed Lodewyk "Don" Turvey at its Chief Executive Officer on 10 May 2010. In his agreement the Group committed to issue him with 10m ordinary shares, to be escrowed for 12 months, and 100m listed 5 cent options expiring 13 February 2013 upon the group reaching certain milestones. As at the date of this report these equity incentives have not been issued or accounted for as they subject to shareholder approval.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 29: Contingent Liabilities and Contingent Assets

- A royalty arrangement is in place with respect to the Group's \$20m debt facility instrument equating to US\$1 per tonne of all coal produced by Continental Coal Ltd in South Africa in proportion to the investment percentage of each Royalty holder.
- A royalty equivalent to 2% of all sales of coal produced from the Project X, Vaalbank, Lemoenfontein, Witbank and Loskop projects is payable to the facilitator of the acquisition of Continental Coal Ltd.

Note 30: Segment Reporting

(a) Description of segments

Management has determined that the operating segments are based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Board of Directors are as disclosed in the Directors Report.

The Board of Directors considers the business from both a commodity type and geographical perspective and has identified three reportable segments.

Segment information provided to the Board of Directors

The segment information provided to the Board of Directors for the reportable segments for the year ended 30 June 2010 is as follows:

| 2010 | Coal SA | Vanadium & Magnetite SA | Corporate Costs | Consolidated |
|---|-------------|-------------------------|-----------------|--------------|
| | \$ | \$ | \$ | \$ |
| Total segment revenue | 1,188,283 | - | (820,635) | 367,648 |
| EBITDA | (8,253,632) | - | (6,890,079) | (15,143,711) |
| Total segment assets as at 30 June 2010 | 46,922,578 | 9,758,024 | 21,750,114 | 78,430,716 |
| Total segment liabilities | 15,820,027 | 557,754 | 21,827,763 | 38,205,544 |

| 2009 | Coal SA | Vanadium & Magnetite SA | Corporate Costs | Consolidated |
|---|-------------|-------------------------|-----------------|--------------|
| | \$ | \$ | \$ | \$ |
| Total segment revenue | - | - | 7,338 | 7,338 |
| EBITDA | (1,301,176) | - | (9,767,364) | (11,068,540) |
| Total segment assets as at 30 June 2009 | 16,632,242 | 10,269,919 | 25,924,027 | 52,826,188 |
| Total segment liabilities | 17,996,797 | 727,129 | 8,876,155 | 27,600,081 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 30: Segment Reporting (cont.)

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, plant and equipment and exploration and development expenditure. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

Intersegment Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the economic entity at an arms length. These transfers are eliminated on consolidation.

(ii) Adjusted EBITDA

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and impairments when the impairment is the result of an isolated, non-recurring event. Furthermore, the measure excludes the effects of equity-settled share-based payments and unrealised gains/ (losses) on financial instruments. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the consolidated entity.

The reconciliation of adjusted EBITDA to operating profit before income tax is provided as follows:

| | Consolidated | |
|--|--------------|--------------|
| | 2010 \$ | 2009 \$ |
| Adjusted EBITDA | | |
| Interest revenue | (15,143,711) | (11,068,540) |
| Finance costs | 14,632 | 7,338 |
| Depreciation | (12,254,969) | (3,818,907) |
| | (77,430) | (25,427) |
| Loss before income tax from continuing operations | (27,461,478) | (14,905,526) |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 31: Cash Flow Information

| | Consolidated | |
|--|--------------|--------------|
| | 2010 \$ | 2009 \$ |
| (a) Reconciliation of Cash Flow from Operations with Profit/(loss) after Income Tax | | |
| Profit/(loss) after income tax | (27,461,479) | (14,905,526) |
| Non-cash flows in profit | | |
| Depreciation | 77,430 | 25,427 |
| Written off exploration costs | - | 4,368,053 |
| Unwinding of borrowing costs – non-cash | - | 1,331,798 |
| Impairment provisions | 1,924,276 | 2,468,691 |
| Share based expenses | 8,436,747 | 158,909 |
| Foreign exchange differences | - | 421,064 |
| Increase/(decrease) in trade and other payables | 1,847,410 | 4,730,492 |
| Increase/(decrease) in provisions | 2,231,672 | 261,408 |
| (Increase)/decrease in trade and other receivables | 646,106 | (1,605,993) |
| Increase/(decrease) in prepayments | 3,970,426 | - |
| (Increase)/decrease in deferred revenue | 1,606,500 | - |
| Cash flow (used in) operations | (986,912) | (2,745,677) |

(b) Non-cash financing and investing activities

Non-cash financing and investing activities for the year ended 30 June 2010 totalled \$11,158,679 (2009: \$18,640,000).

2010: The total borrowings of 14,277,892 were settled by the issue of 226,935,916 shares during the year.

2009: The Group issued 360m ordinary shares for the business combination as set out in note 14, also made Share Based Payments as set out in note 32.

(c) Credit Standby Arrangements with Banks

There were no credit standby arrangements with the banks for year ended 30 June 2010.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 32: Share-based Payments

The following share-based payment transactions occurred during the period;

| Quantity | Security | \$ Value | Purpose |
|-------------|--|------------|---|
| 20,000,000 | \$0.05 listed options (13 February 2013) | 320,000 | Finders Fee, Canyon Springs Project. |
| 20,000,000 | Fully paid ordinary shares | 860,000 | |
| 325,461,742 | Fully paid ordinary shares, and; | 14,508,401 | Reduction of Debt Facilities, including |
| 15,000,000 | \$0.05 listed options (13 February 2013) | 330,000 | interest payable. |
| 8,333,333 | Fully paid ordinary shares, and; | 520,000 | Issued in lieu of corporate advisory, capital |
| 50,802,788 | \$0.05 listed options (13 February 2013) | 1,611,636 | raising etc. fees. |
| 70,000,000 | \$0.05 listed options (13 February 2013) | 1,845,000 | Issued in obtaining LinQ debt facility. |
| 70,000,000 | \$0.05 unlisted options (6 August 2013) | 2,620,452 | |
| 15,000,000 | \$0.05 unlisted options (31 December 2012) | 389,158 | To be issued to South African subsidiary employees upon achieving vesting period. |
| 9,000,000 | \$0.10 unlisted options (30 June 2012) | 187,950 | To be issued to South African subsidiary employees upon achieving vesting period. |

At the date of this report the company the group had committed to issuing a further 185,652,681 options that have not been included in the above, nor in the total options below. These options relate to the current period.

The fair value at grant date of the unlisted options is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. The fair value of the listed options was determined as the market price of the listed options at the time the services were provided to the Group.

The following share based payment arrangements from prior periods existed at 30 June 2010:

| | 2010 | | 2009 | |
|--|-------------------|------------------------------------|-------------------|------------------------------------|
| | Number of Options | Weighted Average Exercise Price \$ | Number of Options | Weighted Average Exercise Price \$ |
| Outstanding at the beginning of the year | 250,800,000 | 0.145 | 65,000,000 | - |
| Granted | 549,093,719 | 0.05 | 185,800,000 | 0.145 |
| Forfeited | (5,000,000) | 0.05 | - | - |
| Exercised | (68,000,000) | 0.05 | - | - |
| Expired | (48,800,000) | 0.18 | - | - |
| Outstanding at year end | 678,093,719 | 0.075 | 250,800,000 | 0.145 |
| Exercisable at year end | 654,093,719 | 0.075 | 245,800,000 | 0.145 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 32: Share-based Payments (cont.)

Expenses arising from share-based payment transactions

The expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

| | Consolidated | |
|-----------------------------|--------------|------------|
| | 2010 \$ | 2009 \$ |
| Options issued to employees | 171,118 | 32,813 |
| | 171,118 | 32,813 |

The following factors and assumptions were used in determining the fair value of the unlisted options on grant date:

| Grant date | Expiry date | No. of Options Granted | Fair value per option | Exercise price | Price of shares on grant date | Expected volatility annualised | Risk free interest rate | Dividend yield |
|------------|-------------|------------------------|-----------------------|----------------|-------------------------------|--------------------------------|-------------------------|----------------|
| 27/01/2009 | 19/10/2011 | 60,000,000 | \$0.009 | \$0.20 | \$0.04 | 90% | 4.25% | - |
| 27/01/2009 | 19/10/2011 | 60,000,000 | \$0.011 | \$0.15 | \$0.04 | 90% | 4.25% | - |
| 20/11/2009 | 06/08/2013 | 70,000,000 | \$0.047 | \$0.05 | \$0.071 | 85% | 3% | - |
| 03/02/2010 | 13/02/2013 | 50,000,000 | \$0.027 | \$0.05 | \$0.05 | 85% | 4.25% | - |
| 01/07/2009 | 30/06/2012 | 9,000,000 | \$0.021 | \$0.10 | \$0.06 | 70% | 3.93% | - |
| 06/08/2009 | 06/08/2013 | 80,000,000 | \$0.046 | \$0.05 | \$0.067 | 85% | 3% | - |
| 11/09/2009 | 06/08/2013 | 20,000,000 | \$0.047 | \$0.05 | \$0.071 | 85% | 3% | - |
| 10/12/2009 | 31/12/2012 | 15,000,000 | \$0.030 | \$0.05 | \$0.05 | 77% | 4.91% | - |

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future volatility, which may not be the case.

Note 33: Events occurring after the reporting date

No matter or circumstances have arisen since the end of the reporting date and the date of this report which significantly affects or may significantly affect the results of the operations of the Group except as follows:

- Successful completion of a placement of 400m ordinary fully paid shares at an issue price of 5 cents to sophisticated and institutional investors, raising \$22m before costs, to assist in the funding of the acquisition costs of Mashala, Penumbra underground mine and development costs and working capital. The placement was completed in two tranches (200m shares up front to raise \$11m) with the balance (200m shares) approved by shareholders at the Group's general meeting on 14 July 2010.
- Successful completion of a Share Purchase Plan of 290,909,090 ordinary fully paid shares at an issue price of 5.5 cents, raising \$16m before costs, to assist in the funding of the acquisition costs of Mashala, Penumbra underground mine and development costs and working capital.
- The Group has executed binding documentation for a 20 year coal off-take agreement and a US\$20 million financing facility with EDF Trading;

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 33: Events occurring after the reporting date (cont.)

- The Group announced its plans to raise a further A\$25m through a convertible note to be completed on or before early October 2010;
- The Group's 74% subsidiary Continental Coal Limited, executed a Share sale and option agreement to acquire 100% of the shares of unlisted South African thermal coal mining and export coal producing group Mashala Resources ("Mashala") on 16 September 2010. The initial shareholding is 64.1% upon payment of US\$35m with an option for the balance of 35.9% shareholding within the next twelve months. Going forward as Mashala has now become a subsidiary of Continental Coal Limited in South Africa it will be accounted for in a Business combination;
- On 25 August the group's subsidiary, Continental Coal Limited in South Africa paid Rand 40m (AUD\$6,120,000) in respect to the outstanding purchase consideration for their 50% share in Ntshovelo Mining Resources (Pty) Limited and a 60% economic interest in the Vlakvarkfontein Coal Mine. Going forward as Ntshovelo has now become a subsidiary of Continental Coal Limited in South Africa it will be accounted for in a Business combination.

Note 34: Related Party Transactions

(a) Parent entities

The parent entity within the group is Continental Coal Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 15.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 7.

(d) Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

| | Consolidated | |
|---|--------------|------------|
| | 2010 \$ | 2009 \$ |
| Consulting fees paid to Okap Ventures Pty Ltd, a company in which Mr Landau is a director, for the provision of strategic and corporate advisory, company secretarial, financial management, investor and public relations and associated services in fully serviced offices in both Perth and London | 600,000 | 476,000 |
| Consulting fees paid or payable to Doull Holdings Pty Ltd, a company in which Mr Landau is a Director, for the provision of Mr Landau as an Executive Director. | 164,863 | 163,500 |
| Consulting fees paid or payable to Masawu investments (Pty) Ltd, a nominee company of Mr Buthelezi, for services rendered by his consulting company to South African subsidiary. | 270,180 | - |
| Consulting fees paid or payable to Horizon Mining and Exploration, a nominee company of Mr Macaulay, for services rendered by his consulting company to South African subsidiary. | 116,177 | - |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 34: Related Party Transactions (cont.)

| | Consolidated | |
|--|--------------|------------|
| | 2010 \$ | 2009 \$ |
| Consulting fees paid or payable to Firefly Global Holdings Limited, a nominee company of Mr Macaulay, for services rendered by his consulting company to South African subsidiary. | 453,900 | - |
| Consulting fees paid or payable to Affinity Properties (Pty) Ltd, a nominee company controlled by Mr Buthelezi's wife, for rent recouped by the South African subsidiary. | 29,928 | - |
| Consulting fees paid or payable to M van der Poel for services rendered by his consulting company to South African subsidiary. | 152,291 | 285,244 |

Amounts payable at year end to related parties:

| | | |
|------------------------|---------|---------|
| Okap Ventures Pty Ltd | 962,262 | 606,151 |
| Doull Holdings Pty Ltd | 44,963 | 89,925 |
| Azuris Limited | - | 36,168 |

(e) Loans from other related parties

In May 2008, Continental Coal Limited entered into a loan agreement with Nkwe Platinum South Africa (Pty) Ltd, a company which Peter Landau is a Director and Company Secretary, in which \$794,400 was advanced to Continental in consideration for Continental providing Nkwe with a first right of refusal in respect of certain Zimbabwean PGM projects facilitated by Continental. The loan is interest bearing and repayable in South African Rand on 31 Dec 2010. The loan is secured by first right of the proceeds from the held for sale asset Vanmag.

| | Consolidated | |
|-------------------------|--------------|------------|
| | 2010 \$ | 2009 \$ |
| Balance at 1 July 2009 | 1,046,178 | 802,865 |
| Interest charged | 192,290 | 96,377 |
| Loan revalued | (131,178) | 146,936 |
| Balance at 30 June 2010 | 1,107,290 | 1,046,178 |

(f) Transactions with Continental Coal Ltd (SA) related parties

Consolidated

| Related party | Transaction type | 2010 Outstanding balance | 2009 Outstanding balance |
|---|--------------------------------|--------------------------------|--------------------------------|
| Loan from A Macaulay | Loan from shareholder/director | 89,296 | 25,820 |
| Loan from MB Buthelezi | Loan from shareholder/director | 9,652 | 633 |
| Loan from Mbuvelo Investments (Pty) Ltd | Loan from shareholder/director | 86,743 | 576,123 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 35: Parent Entity Information

The following details information related to the parent entity Continental Coal Limited, at 30 June 2010. The information presented here has been prepared in accordance using consistent accounting policies as presented in Note 1.

| | 2010 \$ | 2009 \$ |
|--|---------------------|---------------------|
| Current assets | 11,874,098 | 14,559,174 |
| Non-current assets | 65,802,813 | 35,640,955 |
| Total assets | 77,676,911 | 50,200,129 |
| Current liabilities | 22,709,999 | 11,400,250 |
| Non-current liabilities | - | 13,731,808 |
| Total liabilities | 22,709,999 | 25,172,058 |
| Contributed equity | 100,829,337 | 54,154,598 |
| Shares and options to be issued | 90,000 | 16,294,698 |
| Retained earnings / accumulated losses | (64,872,419) | (52,213,641) |
| Option premium reserve | 652,602 | 652,602 |
| Share based payment reserve | 18,167,392 | 6,139,814 |
| Total equity (i) | 54,966,912 | 25,028,071 |
| Loss for the year | (12,558,778) | (14,518,217) |
| Total comprehensive loss for the year | (12,558,778) | (14,518,217) |

(i) The Net Assets of the parent company are higher than the Group, however there will be no impairment due to the investment in the subsidiary being recoverable based upon discounted future cash flow.

Note 36: Financial Risk Management

This note presents information about the Group's exposure to credit, liquidity and market risks, their objectives, policies and processes for measuring and managing risk, and the management of capital (refer note 24(e)).

The Group's financial instruments consist mainly of deposits with banks, short-term investments, other receivables and payables.

The Group does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Board of Directors has an overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the group through regular reviews of the risks.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 36: Financial Risk Management (cont.)

The Group holds the following financial instruments:

| | Consolidated | |
|-------------------------------------|--------------|------------|
| | 2010 \$ | 2009 \$ |
| Financial assets | | |
| Cash and cash equivalents | 39,822 | 89,782 |
| Trade and other receivables | 131,062 | 1,536,983 |
| Available for sale financial assets | 113,437 | 192,188 |
| Other financial assets | 8,835,750 | - |
| | 9,120,071 | 12,088,872 |
| Financial liabilities | | |
| Trade and other payables | 15,682,501 | 5,510,107 |
| Borrowings | 19,794,870 | 21,362,845 |
| | 35,477,371 | 27,600,081 |

Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Net fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in note 1 to the financial statements.

(i) Financial Risk Exposures and Management

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk.

(a) Credit risk

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted the policy of only dealing with creditworthy counter-parties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated entity measures credit risk on a fair value basis. The consolidated entity does not have any significant credit risk exposure to any single counter-party.

Cash and cash equivalents

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating.

Trade and other receivables

Trade and other receivables as at the statement of financial position date include short term loans to be refunded to the Group. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 36: Financial Risk Management (cont.)

Exposure to Credit Risk

The carrying value of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was as summarised on page 80.

Impairment Losses

None of the Group's other receivables are past due (2009: nil).

(b) Liquidity Risk Management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows. The Group does have external borrowings.

The Group anticipates a need to raise additional capital in the next 12 months to meet forecast operational and exploration activities. The decision on how the Group will raise future capital will depend on market conditions existing at the time.

The following are the contractual maturities of financial liabilities:

| 2010 | Carrying amount | Principle & Interest | 6 months or less | 6-12 months | 1-2 years | 2-5 years |
|-----------------------------|-----------------|----------------------|------------------|-------------|------------|-----------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Consolidated | | | | | | |
| Trade and other payables | 15,682,501 | 15,682,501 | 15,682,501 | - | - | - |
| Borrowings interest bearing | 19,794,872 | 20,289,744 | 20,289,744 | - | - | - |
| | 35,477,373 | 35,972,245 | 35,972,245 | - | - | - |
| 2009 | | | | | | |
| 2009 | Carrying amount | Principle & Interest | 6 months or less | 6-12 months | 1-2 years | 2-5 years |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Consolidated | | | | | | |
| Trade and other payables | 5,510,107 | 5,510,107 | 4,295,200 | - | 1,214,907 | - |
| Borrowings interest bearing | 21,362,845 | 21,362,845 | 8,159,845 | - | 14,787,360 | - |
| | 26,872,952 | 26,872,952 | 12,455,045 | - | 16,002,267 | - |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 36: Financial Risk Management (cont.)

(c) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(d) Currency Risk

The Group is exposed to currency risk on receivables, payables and borrowings that are denominated in a currency other than the respective functional currencies of the Group entities, which is primarily the Australian Dollar (AUD). The currencies in which these transactions are primarily denominated are United States Dollar (USD) and South African Rand (ZAR).

The Group has not entered into any derivative financial instrument to hedge such transactions.

The Group's investments in its subsidiaries are not hedged as those currency positions are considered to be long term in nature.

Exposure to Currency Risk

The Group's exposure to foreign currency risk at balance date was as follows:

| | Consolidated | | | |
|---------------------------|--------------|--------------|--------------|-------------|
| | 30 June 2010 | | 30 June 2009 | |
| | USD | ZAR | USD | ZAR |
| Cash and Cash equivalents | - | 5,612 | - | - |
| Receivables | - | 130,052 | - | - |
| Borrowings | (2,918,174) | (124,470) | (3,081,094) | (1,978,751) |
| Trade payables | - | (11,293,469) | (308,110) | (1,956,990) |
| | (2,918,174) | (11,282,275) | (3,389,204) | (3,935,741) |

Sensitivity Analysis

A 10 percent strengthening of the Australian Dollar against the following currencies at 30 June 2010 would have increase/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009. 10 percent is management's assessment of the possible change in foreign exchange rates based on historical information.

| | Equity | | Profit or Loss | |
|--------------|------------|------------|----------------|------------|
| | 2010 \$ | 2009 \$ | 2010 \$ | 2009 \$ |
| Consolidated | | | | |
| USD (i) | (248,716) | (338,920) | (248,716) | (338,920) |
| ZAR (ii) | (172,619) | (393,574) | (172,619) | (393,574) |
| | (421,335) | (732,494) | (421,335) | (732,494) |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 36: Financial Risk Management (cont.)

A 10 percent weakening of the Australian Dollar against the above currencies at 30 June 2010 would have an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

- (i) This is attributable to the exposure to the USD denominated Loan.
- (ii) This is attributable to the exposure of the financial assets and liabilities within the subsidiary translated to AUD from its functional currency of ZAR.

Foreign exchange risk

The consolidated entity operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and South African Rand.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The consolidated entity's treasury risk management policy is to closely monitor exchange rate fluctuations. The consolidated entity has engaged a foreign exchange consulting company to assist in this process. To date, the consolidated entity has not sought to hedge its exposure to fluctuations in exchange rates, however this policy will be reviewed on an ongoing basis.

(e) Interest rate risk

The Group is exposed to interest rate risk (primarily on its cash and cash equivalents), which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest bearing financial instruments. The Group does not use derivatives to mitigate these exposures.

(f) Fair value measurements

Equity would increase/decrease as a result of gains/losses on equity securities classified as available for sale, unless the assets were determined to be impaired there would be no impact on loss for the year.

As of 1 July 2009, Continental Coal Limited has adopted the amendment to AASB7 – Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within the level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

| | Level 1 \$ | Level 2 \$ | Level 3 \$ | Total \$ |
|-------------------------------------|----------------|---------------|---------------|----------------|
| Assets | | | | |
| Available for sale financial assets | | | | |
| Equity securities | 113,437 | - | - | 113,437 |
| Total assets | 113,437 | - | - | 113,437 |

The fair value of financial instruments in active markets such as available for sale securities is based on quoted market bids at the end of the reporting period. The quoted market price used for financial assets held by the consolidated entity is the current bid price. These instruments are included in level 1.

The consolidated entity does not currently have any financial instruments that are not traded in an active market included in level 2 and 3.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 36: Financial Risk Management (cont.)

Financial Instrument Composition and Maturity Analysis

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such the amounts may not reconcile to the statement of financial position.

| | Weighted | | | | | | | | | | | |
|-------------------------------------|---------------------------------|------|------------------------|--------|-------------------------|------------|----------------------|-----------|------------|------------|------|------|
| | Average Effective Interest Rate | | Floating Interest Rate | | Fixed Interest Maturing | | Non-interest bearing | | Total | | | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Consolidated | % | % | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Financial Assets: | | | | | | | | | | | | |
| Cash and cash equivalents | 5% | 5% | 39,822 | 89,782 | - | - | - | - | 39,822 | 89,782 | | |
| Receivables | | | - | - | - | - | 890,877 | 1,536,983 | 890,877 | 1,536,983 | | |
| Available-for-sale financial assets | | | - | - | - | - | 113,437 | 192,188 | 113,437 | 192,188 | | |
| Other financial assets | | | - | - | - | - | 8,835,750 | - | 8,835,750 | - | | |
| Total Financial Assets | | | 39,822 | 89,782 | - | - | 9,840,064 | 1,729,171 | 9,879,886 | 1,818,953 | | |
| Financial Liabilities: | | | | | | | | | | | | |
| Trade and sundry payables | | | - | - | - | - | 17,852,918 | 5,510,107 | 17,852,918 | 5,510,107 | | |
| Amounts payable to related parties | 10% | 10% | - | - | 915,000 | 949,801 | - | - | 915,000 | 949,801 | | |
| Borrowings | 11% | 10% | - | - | 18,879,872 | 20,413,044 | - | - | 18,879,872 | 20,413,044 | | |
| Total Financial Liabilities | | | - | - | 19,794,872 | 21,362,845 | 17,852,918 | 5,510,107 | 37,647,790 | 26,872,952 | | |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 36: Financial Risk Management (cont.)

Fair value sensitivity analysis for fixed rate investments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, therefore a change in interest rates at reporting date would not affect profit or loss.

An increase / (decrease) of 100 basis points in interest rates would have increased / (decreased) the Group's equity by A\$197,949 (2009: \$213,628).

Cash flow sensitivity analysis for variable rate investments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

| | Profit or Loss | |
|---------------------------|----------------|------------|
| | 2010 \$ | 2009 \$ |
| Consolidated | | |
| Variable rate instruments | 6,172 | 897 |
| | 6,172 | 897 |

(g) Price Risk

The Group operates in the coal production and exploration and evaluation phase. The Group's financial assets and liabilities are subject to commodity price risk however executed sales agreements at year end are not subject to commodity price adjustment.

Note 37: Change in Accounting Policy

Australian Accounting Standards/Amendments Released But Not Yet Effective: 30 June 2010 Year End

| AASB Reference | Title and Affected Standard(s): | Nature of Change | Application Date/ Effective Date | Impact on Initial Application |
|--------------------------------|---|--|---|--|
| AASB 2009-8 (issued July 2009) | Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions | Clarifies the scope and accounting for group cash-settled share-based payment transactions in the individual financial statements of an entity receiving the goods/services when that entity has no obligation to settle the share-based payment transaction. Supersedes Interpretation 8 Scope of AASB 2 and Interpretation 11 AASB 2 – Group and Treasury Share Transactions. | Periods beginning on or after 1 July 2010 | There will be no impact as there are no share-based payment transactions where the entity receives goods or services with no corresponding obligation to settle the share-based payment transaction. |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 37: Change in Accounting Policy (cont.)

| AASB Reference | Title and Affected Standard(s): | Nature of Change | Application Date/ Effective Date | Impact on Initial Application |
|---|--|---|--|--|
| AASB 9 (issued December 2009) | Financial Instruments | Amends the requirements for classification and measurement of financial assets | Periods beginning on or after 1 July 2013 | Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the entity has not yet made an assessment of the impact of these amendments. |
| AASB Interpretation 19 (issued December 2009) | Extinguishing Financial Liabilities with Equity Instruments | Equity instruments issued to a creditor to extinguish all or part of a financial liability are 'consideration paid' to be recognised at the fair value of the equity instruments issued, unless their fair value cannot be measured reliably, in which case they are measured at the fair value of the debt extinguished. Any difference between the carrying amount of the financial liability extinguished and the 'consideration paid' is recognised in profit or loss. | Periods beginning on or after 1 July 2010 | There could be an impact should debt holders elect debt for equity swaps. |
| AASB 5 | Non-current Assets Held for Sale and Discontinued Operations | Clarifies that disclosures required for non-current assets (or disposal groups) classified as held for sale or discontinued operations are limited to those required by AASB 5 unless: <ul style="list-style-type: none"> • disclosures are specifically required for these assets by other AASBs; or • assets and liabilities of a disposal group are not within the measurement requirements of AASB and disclosures are required by other AASBs. | Periods commencing on or after 1 July 2010 | There will be no impact as these requirements are only required to be applied prospectively to disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations. |
| AASB 101 | Presentation of Financial Statements | Clarifies that terms of a liability that could, at the option of the counterparty, result in the liability being settled by the issue of equity instruments, do not affect its classification. This means that unless the terms of such liabilities require a transfer of cash or other assets within 12 months, they do not necessarily have to be classified as current liabilities. | Periods commencing on or after 1 July 2010 | Initial adoption of this amendment will have no impact as the entity does not have any current liabilities where the counterparty has the option to have the liabilities settled by the issue of equity instruments. |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 37: Change in Accounting Policy (cont.)

| AASB Reference | Title and Affected Standard(s): | Nature of Change | Application Date/ Effective Date | Impact on Initial Application |
|----------------|---------------------------------|---|--|--|
| AASB 107 | Statement of Cash Flows | Clarifies that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as cash flows from investing activities. | Periods commencing on or after 1 July 2010 | Initial adoption of this amendment will have no impact as the entity only recognises cash flows from investing activities for expenditures that result in a recognised asset in the statement of financial position. |
| AASB 136 | Impairment of Assets | Clarifies that CGUs to which goodwill is allocated cannot be larger than an operating segment as defined in AASB 8 Operating Segments before aggregation. | Periods commencing on or after 1 July 2010 | There will be no impact as these requirements are only required to be applied prospectively to goodwill impairment calculations for periods commencing on or after 1 July 2010. |
| IFRS 3 | Business Combinations | <p>The amendment limits the choice of measuring non-controlling interests (NCI) at either fair value or the NCI's proportionate share of the acquiree's net identifiable assets to NCI's that are present ownership instruments that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of NCI must be measured at acquisition date fair value, or as required by other Accounting Standards.</p> <p>The amendments clarify that acquiree awards that the acquirer chooses to, but is not obliged to, replace, must be accounted for in the same way as acquiree awards that the acquirer is obliged to replace.</p> <p>Additional guidance paragraphs B62A and B62B have been added to confirm that, where the acquiree still has outstanding share-based payment transactions, these form part of the NCI of the acquirer and are measured as follows:</p> <ul style="list-style-type: none"> • If vested – at their market-based measure; and • If not vested – at their market-based measure as if acquisition date were the grant date. <p>Confirms that any balances of contingent consideration that relate to acquisitions under the superseded IFRS 3 must be accounted for under the superseded standard, i.e. not via profit or loss.</p> | Periods commencing on or after 1 July 2010 | There will be no impact on initial adoption as these requirements are only required to be applied prospectively. |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 37: Change in Accounting Policy (cont.)

| AASB Reference | Title and Affected Standard(s): | Nature of Change | Application Date/ Effective Date | Impact on Initial Application |
|----------------|--------------------------------------|---|--|---|
| IFRS 7 | Financial Instruments: Disclosures | Deletes various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held. | Periods commencing on or after 1 July 2011 | There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer disclosures only. |
| IAS 1 | Presentation of Financial Statements | A detailed reconciliation of each item of other comprehensive income may be included in the statement of changes in equity or in the notes to the financial statements. | Periods commencing on or after 1 July 2011 | There will be no impact on initial adoption of this amendment as a detailed reconciliation of each item of other comprehensive income has always been included in the statement of changes in equity. |

Note 38: Group Details

The registered office of the group is:

Continental Coal Limited
Ground Floor
1 Havelock Street
West Perth WA 6005

The principal place of business is:

Continental Coal Limited South Africa
9th Floor Fredman Towers
13 Fredman Drive
Sandton South Africa 2196

DIRECTORS' DECLARATION

The directors of the group declare that:

1. the financial statements comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes, are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001 and other mandatory reporting requirements; and
 - (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date.
2. The consolidated entity has included in the notes to the financial statements an explicit and unreserved statement of Compliance with International Financial Reporting Standards..
3. In the director's opinion there are reasonable grounds to believe that the group will be able to pay its debts as and when they become due and payable.
4. The remuneration disclosures included in the directors report (as part of audited Remuneration Report) for the year ended 30 June 2010, comply with section 300A of the *Corporations Act 2001*.
5. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

A handwritten signature in black ink, enclosed within an oval border. The signature appears to read "Peter Landau".

Peter Landau
Executive Director

Dated this 30th day of September 2010

INDEPENDENT AUDIT REPORT



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Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CONTINENTAL COAL LIMITED

We have audited the accompanying financial report of Continental Coal Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

INDEPENDENT AUDIT REPORT



Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Basis for Qualified Auditor's Opinion

During the 2009 financial year Continental Coal Limited may have acquired a controlling interest in the shares of Golden Falls Trading 565 (Proprietary) Limited. BDO have been unable to obtain the financial statements of Golden Falls Trading 565 (Proprietary) Limited nor sufficient evidence to determine if Continental Coal Limited owns a controlling interest in the shares of Golden Falls Trading 565 (Proprietary) Limited. As a result, there is no investment in relation to Golden Falls Trading 565 (Proprietary) Limited recorded by Continental Coal Limited. Due to this limitation of scope, we have not been able to determine what effect, if any, the recording of this investment in Golden Falls Trading 565 (Proprietary) Limited would have on the 30 June 2010 accounts of Continental Coal Limited, nor what effect, if any, non-consolidation of Golden Falls Trading 565 (Proprietary) Limited would have on the 30 June 2010 accounts of the consolidated entity.

Qualified Auditor's Opinion

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, if any:

- (a) the financial report of Continental Coal Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, we draw attention to Note 1 to the financial statements, which indicates that the consolidated entity had current assets of \$12,464,367, and current liabilities of \$35,973,872. The ability to settle the current liabilities is dependent upon the consolidated entity obtaining additional funding, either through capital raisings, sale of assets, or incurrence of debt, or a combination of the three. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

INDEPENDENT AUDIT REPORT



Auditor's Opinion

In our opinion, the Remuneration Report of Continental Coal Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO
Glyn O'Brien

Glyn O'Brien

Director

Perth, Western Australia

Dated this 30th day of September 2010

ASX ADDITIONAL INFORMATION

Shareholdings

The issued capital of the Company as at 27 September 2010 is 2,183,803,590 ordinary fully paid shares. There are 603,036,359 listed options (\$0.05, 13 February 2013), 50,000,000 unlisted options (\$0.05, 13 February 2013), 67,000,000 unlisted options (\$0.05, 6 August 2013), 60,000,000 unlisted options (\$0.15, 19 October 2011) and 60,000,000 unlisted options (\$0.20, 19 October 2011).

| Ordinary Shares at 27 September 2010 | No. of Holders | No. of Shares |
|--|----------------|---------------|
| 1 - 1,000 | 169 | 55,109 |
| 1,001 - 5,000 | 93 | 273,708 |
| 5,001 – 10,000 | 497 | 4,361,549 |
| 10,001 - 100,000 | 3,581 | 193,630,303 |
| 100,001 – 9,999,999,999 | 2,954 | 1,985,482,921 |
| | 7,294 | 2,183,803,590 |
| Number holding less than a marketable parcel | 377 | 1,123,266 |

| Options (\$0.05, 13 February 2013) at 27 September 2010 | No. of Holders | No. of Options |
|---|----------------|----------------|
| 1 - 1,000 | 7 | 1,080 |
| 1,001 - 5,000 | 2 | 4,807 |
| 5,001 – 10,000 | 4 | 38,941 |
| 10,001 - 100,000 | 258 | 16,843,196 |
| 100,001 and over | 579 | 586,148,335 |
| | 850 | 603,036,359 |
| Number holding less than a marketable parcel | 14 | 57,328 |

ASX ADDITIONAL INFORMATION

| Top 20 Shareholders as at 27 September 2010 | No. of Shares Held | % Held |
|---|----------------------|--------------|
| 1. Revecom International Limited | 80,425,834 | 3.68 |
| 2. JP Morgan Nominees Australia Limited <Cash Income A/c> | 64,366,018 | 2.95 |
| 3. AGIP Resources Limited | 39,308,612 | 1.80 |
| 4. Mr Albert John Matthews & Mrs Betty June Matthews <The BJM S/F No2 A/C> | 31,011,096 | 1.42 |
| 5. J P Morgan Nominees Australia Limited | 30,626,636 | 1.40 |
| 6. HSBC Custody Nominees (Australia) Limited | 22,195,720 | 1.02 |
| 7. Maclure Capital Limited | 19,989,502 | 0.92 |
| 8. HNC Pty Ltd <The Saggers Super Fund A/C> | 17,415,248 | 0.80 |
| 9. Cassa Trading Pty Ltd <The Cassa Trading A/C> | 16,700,000 | 0.76 |
| 10. J & J Bandy Nominees Pty Ltd <J & J Bandy Super Fund A/C> | 16,500,000 | 0.76 |
| 11. Mr Vincente Pascual Pons Sanz | 16,363,636 | 0.75 |
| 12. Comsec Nominees Pty Limited | 16,004,788 | 0.73 |
| 13. Churchill Enterprises Limited | 14,000,000 | 0.64 |
| 14. Colliss Superannuation Pty Ltd <Colliss Super Fund A/C> | 13,772,726 | 0.63 |
| 15. National Nominees Limited | 13,156,896 | 0.60 |
| 16. Starland Nominees Pty Ltd <The Starland A/C> | 12,857,143 | 0.59 |
| 17. Mr Mejed Alameddine | 12,000,000 | 0.55 |
| 18. Seventy Three Pty Ltd <King Super Fund No 3 A/C> | 10,908,517 | 0.50 |
| 19. Citicorp Nominees Pty Limited | 10,746,852 | 0.49 |
| 20. Troca Enterprises Pty Ltd <Coulson Super A/c> | 10,136,365 | 0.46 |
| Total 20 holders | 468,485,589 | 21.45 |
| Total Remaining Holders Balance | 1,715,318,001 | 78.55 |

ASX ADDITIONAL INFORMATION

| Top 20 Option Holders (\$0.05, 13 February 2013) as at 27 September 2010 | | No. of Options Held | % Held |
|---|--|----------------------------|---------------|
| 1. | HSBC Custody Nominees (Australia) Limited | 19,375,674 | 3.21 |
| 2. | Mr Paul Anthony Henry | 15,000,000 | 2.49 |
| 3. | Mr Ross Edward Gustafson <Vesty Super Fund A/C> | 13,525,000 | 2.24 |
| 4. | J & J Bandy Nominees Pty Ltd <J & J Bandy Super Fund A/C> | 12,500,000 | 2.07 |
| 5. | Mr Albert John Matthews & Mrs Betty June Matthews <The BJM S/F No2 A/C> | 11,657,847 | 1.93 |
| 6. | Seventy Three Pty Ltd <King Super Fund No 3 A/C> | 11,500,000 | 1.91 |
| 7. | Mesuta Pty Ltd | 10,354,323 | 1.72 |
| 8. | Mrs Donna Raye Stratton | 10,172,710 | 1.69 |
| 9. | R & C Australia Pty Ltd | 10,000,000 | 1.66 |
| 10. | Wayne King Corporation Limited | 10,000,000 | 1.66 |
| 11. | JP Morgan Nominees Australia Limited <Cash Income A/C> | 9,810,000 | 1.63 |
| 12. | Citicorp Nominees Pty Limited | 8,961,376 | 1.49 |
| 13. | BT Portfolio Services Ltd <Warrell Holdings S/F A/C> | 7,000,000 | 1.16 |
| 14. | Mr Phillip James Towzell | 6,450,000 | 1.07 |
| 15. | Gallifrey Pty Ltd <The Rothenburg A/C> | 5,783,950 | 0.96 |
| 16. | Mr Ilija Seat <Ilija Seat Family A/C> | 5,500,000 | 0.91 |
| 17. | Mr Mark Konda & Ms Catherine Hurley | 5,000,000 | 0.83 |
| 18. | Pursuit Capital Pty Ltd | 5,000,000 | 0.83 |
| 19. | Torres Industries Pty Ltd | 5,000,000 | 0.83 |
| 20. | Mr Sebastiaan Van Der Meulen | 5,000,000 | 0.83 |
| Total 20 holders | | 187,590,880 | 31.11 |
| Total Remaining Holders Balance | | 415,445,479 | 68.89 |

| Substantial Shareholders as at 27 September 2010 | No. of Shares Held | % Held |
|--|---------------------------|---------------|
| Revecom International Limited | 80,425,834 | 3.68 |
| JP Morgan Nominees Australia Limited <Cash Income A/c> | 64,366,018 | 2.95 |
| AGIP Resources Limited | 39,308,612 | 1.80 |
| Mr Albert John Matthews & Mrs Betty June Matthews <The BJM S/F No2 A/C> | 31,011,096 | 1.42 |

CORPORATE GOVERNANCE STATEMENT

The Board of Directors is responsible for the overall strategy, governance and performance of the Continental Group. The Group is an exploration company whose strategy is to add substantial shareholder value through the acquisition, exploration, development and commercialisation of coal projects in the Republic of South Africa. The Board has adopted a corporate governance framework which it considers to be suitable given the size, history and strategy of the Group.

Principles of Best Practice Recommendations

In accordance with ASX Listing Rule 4.10, Continental Coal Limited is required to disclose the extent to which it has followed the Principles of Best Practice Recommendations during the financial year. Where Nkwe has not followed a recommendation, this has been identified and an explanation for the departure has been given. Further details can be found on the Group's website.

| BEST PRACTICE RECOMMENDATION | | COMMENT |
|--|---|---|
| 1. Lay solid foundations for management and oversight | | |
| 1.1 | Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | Satisfied. Refer the Corporate Governance section on the Group website. |
| 1.2 | Companies should disclose the process for evaluation the performance of senior executives. | Not satisfied. The Group has not yet established formal performance review measures for key executives given the size and stage of the Group's operations. |
| 1.3 | Provide the information indicated in <i>Guide to Reporting on Principle 1</i> . | Satisfied. Refer to Director's report and the Corporate Governance section on the Group website. |
| 2. Structure the board to add value | | |
| 2.1 | A majority of the board should be independent directors. | Not satisfied. There are currently a majority of executive directors on the board (three executive and two non-executive), however the Board believes that it is able to exercise independence and judgement and does possess the necessary skills, expertise and experience required to effectively discharge their duties. The focus has been on the ability of the Board to add value by effectively exercising independence and discharging their duties, rather than on meeting the independence test in the guidelines. |
| 2.2 | The chairperson should be an independent director. | Not satisfied. The chairman of the Board is Executive Chairman. The Group does not currently consider it would benefit from a change from the existing approach given the size of the Group. |

CORPORATE GOVERNANCE STATEMENT

| BEST PRACTICE RECOMMENDATION | COMMENT |
|---|--|
| 2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual. | Satisfied. The roles of the Chairman and the Managing Director are exercised by Mr Macaluay and Mr Buthelezi respectively. |
| 2.4 The board should establish a nomination committee. | Not satisfied. The Board considers that given the current size of the board, this function is efficiently achieved with full Board participation. Accordingly, the Board has resolved not to establish a nomination committee at this stage. |
| 2.5 Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives. | Not satisfied. The Group has not yet established formal performance review measures for key executives nor has it established a nomination committee given the size and stage of the Group's operations. The full Board will review the performance of key executives. |
| 2.6 Provide the information indicated in <i>Guide to Reporting on Principle 2</i> . | Satisfied. Refer to Director's report and the Corporate Governance section on the Group website. In addition, The Board, Board Committees or individual Directors may seek independent external professional advice as considered necessary at the expense of the Group, subject to prior consultation with the Chairman. A copy of any such advice received is made available to all members of the Board. |
| 3. Promote ethical and responsible decision-making | |
| 3.1 Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to: <ul style="list-style-type: none"> <li data-bbox="282 1500 822 1567">(a) the practices necessary to maintain confidence in the group's integrity; and <li data-bbox="282 1567 822 1657">(b) the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders <li data-bbox="282 1657 822 1754">(c) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | Satisfied. Refer the Corporate Governance section on the Group website. |
| 3.2 The Group should establish a policy concerning trading in group's securities by directors, senior executives and employees. | Satisfied. Securities trading policy is available in the Corporate Governance section on the Group website. |
| 3.3 Provide the information indicated in <i>Guide to Reporting on Principle 3</i> . | Satisfied. Refer the Corporate Governance section on the Group website. |

CORPORATE GOVERNANCE STATEMENT

| BEST PRACTICE RECOMMENDATION | | COMMENT |
|--|--|---|
| 4. Safeguard integrity in financial reporting | | |
| 4.1 | The board should establish an audit committee. | Not Satisfied. The Directors believe that it would not increase efficiency or effectiveness to have a separate audit committee, and that audit matters are of such significance that they should be considered by the full Board. The Board may call on outside consultants if it requires assistance in this area. |
| 4.2 | Structure the audit committee so that it consists of: (a) only non-executive directors; (b) a majority of independent directors; (c) an independent chairperson, who is not chairperson of the board; and (d) at least three members. | Not satisfied. Refer 4.1. |
| 4.3 | The audit committee should have a formal charter. | Not satisfied. Refer 4.1. |
| 4.4 | Provide the information indicated in <i>Guide to Reporting on Principle 4</i> . | Satisfied. Refer to Director's report. |
| 5. Make timely and balanced disclosure | | |
| 5.1 | Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies. | Satisfied. Continuous disclosure policy is available in the Corporate Governance section on the Group website. |
| 5.2 | Provide the information indicated in <i>Guide to Reporting on Principle 5</i> . | Satisfied. Refer 5.1. |
| 6. Respect the rights of shareholders | | |
| 6.1 | Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy. | Satisfied. Communications with Shareholders policy is available in the Corporate Governance section on the Group website. |
| 6.2 | Provide the information indicated in <i>Guide to Reporting on Principle 6</i> . | Satisfied. Refer to the Group website. |

CORPORATE GOVERNANCE STATEMENT

| BEST PRACTICE RECOMMENDATION | | COMMENT |
|--|--|---|
| 7. <i>Recognise and manage risk</i> | | |
| 7.1 | The Group should establish policies for the oversight and management of material business risks and disclose a summary of those policies. | Satisfied. Risk management policy is available in the Corporate Governance section on the Group website. |
| 7.2 | The Board should design and implement the risk management and internal control system to manage the group's material business risks and report on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Group's management of its material business risks. | Satisfied. Refer 7.1 & 7.3. |
| 7.3 | The board should disclose whether it has received assurances from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | Due to the size and scale of its operations, the Group does not have a designated CEO or CFO. The roles are performed by the Board as a whole. |
| 7.4 | Provide the information indicated in <i>Guide to Reporting on Principle 7</i> . | Satisfied. Refer 7.1. Not currently applicable. Refer 7.3. |
| 8. <i>Remunerate fairly and responsibly</i> | | |
| 8.1 | The board should establish a remuneration committee. | Not satisfied. The Board considered this recommendation and formed the view that it would not increase efficiency or effectiveness to have a separate committee, and that remuneration matters are of such significance that they should be considered by the full Board. The Board may call on outside consultants if it requires assistance in this area. |
| 8.2 | Clearly distinguish the structure of non-executive directors' remuneration from that of executives. | Details of executive and non-executive remuneration are outlined in the Directors' report. |
| 8.3 | Provide the information indicated in <i>Guide to Reporting on Principle 8</i> . | Satisfied. The Group has incorporated all information as required. |

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Continental Coal Ltd

ABN 13 009 125 651

Ground Floor, 1 Havelock Street, West Perth, Western Australia 6005

Telephone: (08) 9488 5220 Facsimile: (08) 9324 2400

Email: admin@conticoal.com

Website: www.conticoal.com

CONTINENTAL COAL LIMITED

ABN 13 009 125 651

NOTICE OF ANNUAL GENERAL MEETING

TIME: 2.00 pm (WST)

DATE: Friday, 19 November 2010

PLACE: The University Club of Western Australia
Seminar Room 1
Hackett Drive, Crawley WA 6009

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on (08) 9488 5220.

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TIME AND PLACE OF MEETING AND HOW TO VOTE

VENUE

The Annual General Meeting of the Shareholders of Continental Coal Limited to which this Notice of Meeting relates to will be held at 2.00 pm (WST) on Friday, 19 November 2010 at:

The University Club of Western Australia
Seminar Room 1
Hackett Drive, Crawley WA 6009

YOUR VOTE IS IMPORTANT

The business of the Annual General Meeting affects your shareholding and your vote is important.

VOTING IN PERSON

To vote in person, attend the Annual General Meeting on the date and at the place set out above.

VOTING BY PROXY

To vote by proxy, please complete and sign the proxy form enclosed and either:

- (a) send the proxy form by post to Continental Coal Limited, Ground Floor, 1 Havelock Street, West Perth, Western Australia 6005; or
- (b) send the proxy form by facsimile to the Company on facsimile number (08) 9324 2400,

so that it is received not later than 2.00 pm (WST) on Wednesday, 17 November 2010.

Proxy forms received later than this time will be invalid.

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the Annual General Meeting of Shareholders of Continental Coal Limited will be held at 2.00 pm (WST) on Friday, 19 November 2010 at The University Club of Western Australia, Seminar Room 1, Hackett Drive, Crawley WA 6009.

The Explanatory Statement to this Notice of Meeting provides additional information on matters to be considered at the Annual General Meeting. The Explanatory Statement and the proxy form are part of this Notice of Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Annual General Meeting are those who are registered Shareholders at 4.00 pm (WST) on Wednesday, 17 November 2010.

Terms and abbreviations used in this Notice of Meeting and Explanatory Statement are defined in the Glossary.

AGENDA

ORDINARY BUSINESS

Financial Statements and Reports

To receive and consider the financial statements for the Company for the financial year ended 30 June 2010, together with the Directors' report, the remuneration report and the auditor's report as set out in the annual report.

The annual report for the year ended 30 June 2010 was sent to those Shareholders who elected to receive a hard copy. A copy of the annual report is also available on the Company announcements page of the ASX website (asx.com.au).

1. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **non-binding resolution**:

"That, for the purpose of Section 250R(2) of the Corporations Act and for all other purposes, approval is given for the adoption of the remuneration report as contained in the Company's annual financial report for the financial year ended 30 June 2010."

2. RESOLUTION 2 – RE-ELECTION OF DIRECTOR – MR MANUEL LAMBOLEY

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That, for the purpose of clause 13.2 of the Constitution and for all other purposes, Mr Manuel Lamboleoy, a Director who retires by rotation, and being eligible, is re-elected as a Director."

3. RESOLUTION 3 – RE-ELECTION OF DIRECTOR – MR ANDREW MACAULAY

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That, for the purpose of clause 13.2 of the Constitution and for all other purposes, Mr Andrew Macaulay, a Director who retires by rotation, and being

eligible, is re-elected as a Director.”

4. RESOLUTION 4 – PLACEMENT – SHARES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purpose of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Directors to allot and issue 275,900,000 Shares on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

5. RESOLUTION 5 – ISSUE OF SHARES AND CEO OPTIONS – MR DON TURVEY

To consider and, if thought fit, to pass, with or without amendments, the following resolution as an **ordinary resolution**:

“That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to allot and issue 10,000,000 Shares and 100,000,000 CEO Options to Mr Don Turvey (or his nominee) on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Mr Turvey (or his nominee) or any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

6. RESOLUTION 6 – ISSUE OF DIRECTOR OPTIONS – MR PETER LANDAU

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to allot and issue 50,000,000 Director Options to Mr Peter Landau (or his nominee) on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Mr Landau (or his nominee) or any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

7. RESOLUTION 7 – ISSUE OF DIRECTOR OPTIONS – MR JASON BREWER

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to allot and issue 50,000,000 Director Options to Mr Jason Brewer (or his nominee) on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Mr Brewer (or his nominee) or any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

8. RESOLUTION 8 – RATIFICATION OF PRIOR ISSUE – SHARES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purpose of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the allotment and issue of 200,000,000 Shares on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by a person who participated in the issue and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

DATED: 20 October 2010

BY ORDER OF THE BOARD



JANE FLEGG
COMPANY SECRETARY
CONTINENTAL COAL LIMITED

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the Annual General Meeting of the Company to be held at 2.00 pm (WST) on Friday, 19 November 2010 at The University Club of Western Australia, Seminar Room 1, Hackett Drive, Crawley WA 6009.

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the resolutions in the Notice of Meeting.

1. FINANCIAL STATEMENTS AND REPORTS

In accordance with the Constitution, the business of the Annual General Meeting will include receipt and consideration of the annual financial report of the Company for the financial year ended 30 June 2010, together with the declaration of the Directors, the Directors' Report, the Remuneration Report and the Auditor's Report, as set out in the Annual Report.

2. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

The Corporations Act requires that at a listed company's annual general meeting, a resolution that the remuneration report be adopted must be put to the shareholders. The vote on proposed Resolution 1 is advisory only and does not bind the Directors or the Company. However, the Board will take the outcome of the vote into consideration when reviewing remuneration practices and policies.

The remuneration report sets out the Company's remuneration arrangements for the Directors and senior management of the Company. The remuneration report is part of the Directors' report contained in the annual report for the financial year ended 30 June 2010.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the Annual General Meeting.

3. RESOLUTIONS 2 & 3 – RE-ELECTION OF DIRECTORS

Clause 13.2 of the Constitution requires that if the Company has three or more Directors, one third (or the number nearest one-third) of those Directors must retire at each annual general meeting, provided always that no Director (except a Managing Director) shall hold office for a period in excess of three years, or until the third annual general meeting following his or her appointment, whichever is the longer, without submitting himself or herself for re-election. A Director who retires by rotation under clause 13.2 of the Constitution is eligible for re-election.

The Directors to retire at an annual general meeting are those who have been longest in office since their last election, but, as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by drawing lots.

A Director who retires by rotation under clause 13.2 of the Constitution is eligible for re-election.

The Company currently has 6 Directors and accordingly 2 must retire.

Messrs Manuel Lamboley and Andrew Macaulay, the Directors longest in office since their last election, retire by rotation and seek re-election.

4. RESOLUTION 4 – PLACEMENT – SHARES

4.1 General

On 19 October 2010, the Company announced that it had successfully completed a placement of 475,950,000 Shares at an issue price of A\$0.064 to raise US\$30m (before issue costs).

The placement shares will be issued in two tranches:

- 200,000,000 Shares be allotted following the issue of this Notice of Meeting but before the date of the Annual General Meeting (ratification of this issue of shares is sought under Resolution 8) (**First Tranche Share Placement**); and
- 275,950,000 Shares to be issued following this Annual General Meeting, subject to this Resolution 4 being passed (**Second Tranche Share Placement**).

Resolution 4 seeks Shareholder approval for the allotment and issue of up to 275,950,000 Shares under the Second Tranche Share Placement.

None of the subscribers pursuant to this issue will be related parties of the Company.

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

The effect of Resolution 4 will be to allow the Directors to issue the Shares pursuant to the Share Placement during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

4.2 Technical Information Required By ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the Share Placement:

- (a) the maximum number of Shares to be issued is 275,950,000;
- (b) the Shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that allotment will occur on the same date;
- (c) the issue price will be at a minimum price of 6.4 cents per Share;
- (d) the Shares will be allotted and issued to clients of Max Capital Pty Ltd and Renaissance Securities (Cyprus) Limited, who are institutional investors pursuant to the Corporations Act (none of these investors will be related parties of the Company);
- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and
- (f) the Company intends to use the funds raised from the Share Placement towards ongoing project expansion and working capital.

5. RESOLUTION 5 – ISSUE OF SHARES AND CEO OPTIONS – MR DON TURVEY

5.1 General

The Company has agreed, subject to obtaining Shareholder approval, to allot and issue a total of 10,000,000 Shares and 100,000,000 CEO Options to Mr Turvey on the terms and conditions set out below.

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in Sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in Sections 210 to 216 of the Corporations Act.

In addition, ASX Listing Rule 10.11 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

The grant of the CEO Options to Mr Turvey requires the Company to obtain Shareholder approval because the grant of CEO Options constitutes giving a financial benefit and as a Director, Mr Turvey is a related party of the Company.

The Board of Directors has resolved that the issue of the CEO Options constitutes reasonable remuneration in accordance with Section 211 of the Corporations Act. Accordingly shareholder approval is not sought for the grant of the CEO Options to Mr Turvey under Chapter 2E of the Corporations Act.

5.2 Shareholder Approval (Listing Rule 10.11)

Pursuant to and in accordance with the requirements of ASX Listing Rule 10.13, the following information is provided in relation to the proposed grant of CEO Options:

- (a) the related party is Mr Don Turvey who is a related party by virtue of being a Director;
- (b) the maximum number of securities (being the nature of the financial benefit being provided) to be granted to Mr Turvey is:
 - (i) 10,000,000 Shares; and
 - (ii) 100,000,000 CEO Options;
- (c) the CEO Options will be granted to Mr Turvey no later than 1 month after the date of the Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated the CEO Options will be issued on one date;
- (d) the CEO Options will be granted for nil cash consideration, accordingly no funds will be raised;
- (e) the terms and conditions of the CEO Options are set out in Schedule 1;

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the CEO Options to Mr Turvey as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of CEO Options to Mr Turvey will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

6. RESOLUTIONS 6 & 7 – ISSUE OF DIRECTOR OPTIONS

6.1 General

The Company has agreed, subject to obtaining Shareholder approval, to allot and issue a total of 100,000,000 Options (**Director Options**) to Messrs Landau and Brewer (**Related Parties**) on the terms and conditions set out below.

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in Sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in Sections 210 to 216 of the Corporations Act.

In addition, ASX Listing Rule 10.11 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

The grant of the Director Options to the Related Parties requires the Company to obtain Shareholder approval because the grant of Director Options constitutes giving a financial benefit and as Directors, Messrs Landau and Brewer are related parties of the Company.

The Board of Directors has resolved that the issue of the Director Options constitutes reasonable remuneration in accordance with Section 211 of the Corporations Act. Accordingly shareholder approval is not sought for the grant of the Director Options to Mr Landau and Mr Brewer under Chapter 2E of the Corporations Act.

6.1 Shareholder Approval (Listing Rule 10.11)

Pursuant to and in accordance with the requirements of ASX Listing Rule 10.13, the following information is provided in relation to the proposed grant of Director Options:

- (a) the related parties are Messrs Landau and Brewer and they are related parties by virtue of being Directors;
- (b) the maximum number of Director Options (being the nature of the financial benefit being provided) to be granted to the Related Parties is:
 - (i) 50,000,000 Director Options to Mr Landau; and
 - (ii) 50,000,000 Director Options to Mr Brewer;

- (c) the Director Options will be granted to the Related Parties no later than 1 month after the date of the Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated the Director Options will be issued on one date;
- (d) the Director Options will be granted for nil cash consideration, accordingly no funds will be raised;
- (e) the terms and conditions of the Director Options are set out in Schedule 2;

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Director Options to the Related Parties as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of Director Options to the Related Parties will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

7. RESOLUTION 8 – RATIFICATION OF PRIOR ISSUE – SHARES

7.1 General

As disclosed in Section 4 above, the Company recently undertook a Share placement where Shares are to be issued by the Company in two tranches. Resolution 8 seeks ratification of the issue of the First Tranche Share Placement pursuant to ASX Listing Rule 7.4.

No subscribers pursuant to this issue are related parties of the Company.

Resolution 8 seeks Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of those Shares (**Share Ratification**).

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue during any 12 month period any equity securities, or other securities with rights to conversion to equity (such as an option), if the number of those securities exceeds 15% of the number of securities in the same class on issue at the commencement of that 12 month period.

ASX Listing Rule 7.4 sets out an exception to ASX Listing Rule 7.1. It provides that where a company in general meeting ratifies the previous issue of securities made pursuant to ASX Listing Rule 7.1 (and provided that the previous issue did not breach ASX Listing Rule 7.1) those securities will be deemed to have been made with shareholder approval for the purpose of ASX Listing Rule 7.1.

By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

7.2 Technical information required by ASX Listing Rule 7.4

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the Share Ratification:

- (c) 200,000,000 Shares will be allotted;
- (d) the issue price is 6.4 cents per Share;
- (e) the Shares issued will be all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;

- (f) the Shares will be allotted and issued to clients of Max Capital Pty Ltd and Renaissance Securities (Cyprus) Limited, who are institutional investors pursuant to the Corporations Act (none of these investors will be related parties of the Company); and
- (g) the funds raised from this issue were used towards ongoing project expansion and working capital.

8. ENQUIRIES

Shareholders may contact the Company Secretaries, Ms Jane Flegg or Mr Anthony Eastman, on (08) 9488 5220 if they have any queries in respect to the matters set out in this Notice.

GLOSSARY

Annual General Meeting or **Meeting** means the annual general meeting convened by the Notice.

ASX means ASX Limited or the Australian Securities Exchange, as the context requires.

ASX Listing Rules means the Listing Rules of ASX.

Board means the board of Directors.

Business Day means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

CEO Option means an option to acquire a Share with the terms and conditions set out in Schedule 1.

Company or **Continental Coal** means Continental Coal Limited (ABN 13 009 125 651).

Constitution means the constitution of the Company.

Corporations Act means the Corporations Act 2001 (Cth).

Director means a director of the Company.

Director Option means an option to acquire a Share with the terms and conditions set out in Schedule 2.

Explanatory Statement means the explanatory statement accompanying the Notice.

Notice means the Notice of Annual General Meeting.

Optionholder means a holder of a CEO Option or Director Option as the context requires.

Resolution means a resolution contained in the Notice.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of a Share.

WST means Western Standard Time, as observed in Perth, Western Australia.

SCHEDULE 1 – TERMS AND CONDITIONS OF CEO OPTIONS

The Options entitle the holder to subscribe for Shares on the following terms and conditions:

- (a) Each Option gives the Optionholder the right to subscribe for one Share.
- (b) The Options will expire at 5.00pm (WST) on 31 December 2013 (**Expiry Date**). Any Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (c) The CEO Options will vest as follows:
 - (i) 33,333,333 on 10 May 2011;
 - (ii) 33,333,333 upon the Company reaching a market capitalisation of AU\$200,000,000 for a period of at least 20 consecutive trading days on a volume weighted basis; and
 - (iii) 33,333,334 on 10 May 2013 subject to the market capitalisation of AU\$200,000,000 being reached sometime before 10 May 2013.
- (d) The amount payable upon exercise of each Option will be \$0.05 (**Exercise Price**).
- (e) The Options held by each Optionholder, once vested, may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.
- (f) An Optionholder may exercise their Options by lodging with the Company, before the Expiry Date:
 - (i) a written notice of exercise of Options specifying the number of Options being exercised; and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Options being exercised;

(Exercise Notice).
- (g) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
- (h) Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Options specified in the Exercise Notice.
 - (i) The Options are transferable.
 - (j) All Shares allotted upon the exercise of Options will upon allotment rank pari passu in all respects with other Shares.
- (k) The Company will not apply for quotation of the Options on ASX. However, The Company will apply for quotation of all Shares allotted pursuant to the exercise of Options on ASX within 10 Business Days after the date of allotment of those Shares.
- (l) If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

- (m) There are no participating rights or entitlements inherent in the Options and Optionholders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 Business Days after the issue is announced. This will give Optionholders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.
- (n) An Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Option can be exercised.

SCHEDULE 2 – TERMS AND CONDITIONS OF DIRECTOR OPTIONS

The Director Options entitle the holder to subscribe for Shares on the following terms and conditions:

- (a) Each Director Option gives the Optionholder the right to subscribe for one Share.
- (b) The Director Options will expire at 5.00pm (WST) on 31 December 2013 (**Expiry Date**). Any Director Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (c) The amount payable upon exercise of each Director Option will be \$0.075 (**Exercise Price**).
- (d) The Director Options held by each Optionholder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.
- (e) An Optionholder may exercise their Director Options by lodging with the Company, before the Expiry Date:
 - (i) a written notice of exercise of Director Options specifying the number of Director Options being exercised; and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Director Options being exercised;

(Exercise Notice).
- (f) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
- (g) Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Director Options specified in the Exercise Notice.
- (h) The Director Options are not transferable.
- (i) All Shares allotted upon the exercise of Director Options will upon allotment rank pari passu in all respects with other Shares.
- (j) The Company will not apply for quotation of the Director Options on ASX. However, The Company will apply for quotation of all Shares allotted pursuant to the exercise of Director Options on ASX within 10 Business Days after the date of allotment of those Shares.
- (k) If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (l) There are no participating rights or entitlements inherent in the Director Options and Optionholders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Director Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 Business Days after the issue is announced. This will give Optionholders the opportunity to exercise their Director Options prior to the date for determining entitlements to participate in any such issue.

- (m) A Director Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Director Option can be exercised.

PROXY FORM

APPOINTMENT OF PROXY
CONTINENTAL COAL LIMITED
ABN 13 009 125 651

ANNUAL GENERAL MEETING

I/We

of

being a member of Continental Coal Limited entitled to attend and vote at the Annual General Meeting, hereby

Appoint

Name of proxy

OR

the Chair of the General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair of the Annual General Meeting, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, as the proxy sees fit, at the Annual General Meeting to be held at 2.00 pm (WST), on Friday, 19 November 2010 at The University Club of Western Australia, Seminar Room 1, Hackett Drive, Crawley, Western Australia, and at any adjournment thereof.

If no directions are given, the Chair will vote in favour of all the Resolutions.

OR

Voting on Business of the Annual General Meeting

Resolution 1 – Adoption of Remuneration Report
Resolution 2 – Re-election of Director – Mr Lamboleys
Resolution 3 – Re-election of Director – Mr Macaulay
Resolution 4 – Placement – Shares
Resolution 5 – Issue of CEO Options – Mr Turvey
Resolution 6 – Issue of Director Options – Mr Landau
Resolution 7 – Issue of Director Options – Mr Brewer

| | FOR | AGAINST | ABSTAIN |
|---|--------------------------|--------------------------|--------------------------|
| Resolution 1 – Adoption of Remuneration Report | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 2 – Re-election of Director – Mr Lamboleys | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 3 – Re-election of Director – Mr Macaulay | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 4 – Placement – Shares | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 5 – Issue of CEO Options – Mr Turvey | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 6 – Issue of Director Options – Mr Landau | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 7 – Issue of Director Options – Mr Brewer | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

Signature of Member(s):

Date: _____

Individual or Member 1

Sole Director/Company Secretary

Member 2

Director

Member 3

Director/Company Secretary

Contact Name: _____ **Contact Ph (daytime):** _____

CONTINENTAL COAL LIMITED
ACN 009 125 651

Instructions for Completing 'Appointment of Proxy' Form

1. **(Appointing a Proxy):** A member entitled to attend and vote at an Annual General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.
2. **(Direction to Vote):** A member may direct a proxy how to vote by marking one of the boxes opposite each item of business. Where a box is not marked the proxy may vote as they choose. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing Instructions):**
 - **(Individual):** Where the holding is in one name, the member must sign.
 - **(Joint Holding):** Where the holding is in more than one name, all of the members should sign.
 - **(Power of Attorney):** If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
 - **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual members from attending the Annual General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the Annual General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the Annual General Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
 - (a) send the proxy form by post to Continental Coal Limited, Ground Floor, 1 Havelock Street, West Perth, Western Australia 6005; or
 - (b) send the proxy form by facsimile to the Company on facsimile number (08) 9324 2400,so that it is received not later than 5.00 pm (WST) on Wednesday, 17 November 2010.

Proxy forms received later than this time will be invalid.