

29 October 2010

REPORT FOR THE QUARTER ENDING 30 SEPTEMBER 2010

The Board is pleased to provide the following commentary.

COMPANY HIGHLIGHTS

- Acquisition of unlisted South African thermal coal mining and export coal producing company Mashala Resources ("**Mashala**");
- Coal off-take and US\$20 million funding agreement with EDF Trading ("**EDFT**"), a leader in the international wholesale energy markets;
- Achieved targeted monthly coal production of 100,000t at Vlakvarkfontein in only its first full quarter of operations;
- Independent South African consulting geologists, Gemecs (Pty) Ltd confirmed an Exploration Target of 6 - 7 Bt of coal contained within the two Botswana projects;
- Placement to sophisticated and institutional investors and oversubscribed shareholder purchase plan raises gross proceeds of A\$38 million to fund future mine development and working capital costs;
- Subsequent to quarter's end the Company received all necessary South African regulatory approvals for it to complete the acquisition of Mashala and further raised gross proceeds of A\$41 million through a convertible note and placement to sophisticated and institutional investors to complete the Mashala acquisition and fast track project development.

ASX Code – CCC

<i>Issued Shares</i>	2.027 Bn (30 Sep 2010)	<i>Closing Price</i>	A\$0.065 (30 Sep 2010)
<i>Market Cap</i>	A\$132m (30 Sep 2010)	<i>Cash</i>	A\$25m (30 Sep 2010)

The first quarter of the 2010/11 financial year was a transformational one for the Company.

The momentum the Company had built in the previous quarter with the commencement of mining operations and first coal sales at Vlakvarkfontien as well as the appointment of Don Turvey as the Company's inaugural Chief Executive Officer, continued with a number of major milestones and landmark agreements successfully completed during the quarter.

In July, the Company announced a landmark off-take and funding agreement with EDFT. Under the agreement EDFT has agreed to acquire all export coal produced from the Project X and Vaalbank mines for a period of 20 years and supply Continental with a US\$20 million "coal loan". In August, the Company announced that its South African subsidiary Continental Coal Limited ("**CCL**") entered into a binding heads of agreement to acquire 100% of the shares of unlisted South African thermal coal mining and export coal producing company Mashala. Execution of Share Sale Agreements by CCL and Mashala's shareholders was completed some 6 weeks later in September when the Company was also able to announce that coal production at Vlakvarkfontein in only its second full month of operations had exceeded targets and a preliminary review of Mashala's Botswana coal tenements had identified a significant Exploration Target which would undergo a drilling programme in 2011.

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Executive Director Peter Landau

Executive Director Bruce Buthelezi

Acquisition of Mashala Resources

On 4 August 2010, the Company announced that its South African subsidiary had entered into a binding heads of agreement to acquire 100% of the shares of Mashala. On 15 September 2010 Share Sale Agreements were executed by CCL and Mashala's shareholders, under which CCL would acquire a 64.1% shareholding in Mashala for a cash payment of US\$35 million with the balance due within 12 months of the settlement date in cash or shares.

Settlement of the acquisition of the initial 64.1% interest is scheduled to occur in early November following the receipt of approvals from the South African Reserve Bank and the Department of Minerals and Resources for the transfer of the mining rights in October 2010.



The opencast Ferreira coal mine



The Penumbra 300tph coal wash plant

Mashala is an unlisted South African coal mining company. Mashala was established in 2003 and since then has acquired and developed a significant portfolio of operational coal mines, advanced development projects and numerous exploration opportunities in South Africa and Botswana.

The acquisition of Mashala is a significant transaction by the Company. It adds extensive mine infrastructure, immediate export sales and provides one existing and five future mining operations to Continental's existing project portfolio provides. Mashala has a 300tph wash plant operation and rail siding only 3km from the existing Ferreira open cast mine and Penumbra underground project. In addition Mashala also has Richards Bay Coal Terminal (RBCT) allocation and Transnet Freight Rail contracts in place, enhancing the Company's key logistics capabilities.



The Penumbra 300tph coal wash plant



The Anthra siding located adjacent to the wash plant

Mashala's projects currently comprise production from one mine and five other near term production projects, including the Penumbra underground project - where project development is scheduled to commence in the December 2010 quarter.

Mashala's assets are all located within one of the world's largest and most developed coal mining regions with over 60 opencast and underground collieries in operation in the Witbank and Ermelo coalfields accounting for 75% of South Africa's coal reserves and 80% of total coal production and export sales.

A summary of Mashala's South African projects is provided below.

Project	Interest	Gross Insitu Resource Tonnes (Mt)			Mine Life	Coal Product	Forecast First Production
		Inferred	Indicated	Measured			
Ferreira	100%	-	-	2	2 - 3	Export/ Domestic	Current
Penumbra	100%	3	14	8	10 – 20	Export/ Domestic	2011
De Wittekrans	100%	157	37	12	30	Export/ Domestic	2012
Knapdaar	100%	139	-	-	30	Domestic	2013
Leiden	100%	12	2	4	15 – 20	Export/ Domestic	2013
Mooifontein	100%	-	-	3	3 – 5	Export/ Domestic	2014
Wesselton II	100%	11	5	4	10 - 15	Low Volatile	Market
TOTAL		322	58	33			

Following the acquisition the Company's project portfolio grows to two existing mining operations, two mines to be brought into production over the next 12-18 months and a further five projects with the potential to be developed into production by 2015. In addition the Company gains an exploration division with 6 drill rigs and support equipment and significant operational and management synergies.

Off-take and Finance Agreement with EDF Trading

On 21 July 2010, the Company announced that it had signed an off-take and funding agreement with EDFT following the completion of all necessary legal documentation and associated detail due diligence. EDFT is a leader in the international wholesale energy markets and is a wholly-owned subsidiary of EDF S.A., the world's largest energy utility.

Under the terms of the binding off-take agreement, EDF Trading has secured all the Company's production of export quality thermal coal from the Project X, Vaalbank and Vlakvarkfontein mines for an initial period of 20 years at the internationally-recognised benchmark price for coal exported out of South Africa's Richards Bay Coal Terminal – API4. In addition EDF Trading has agreed to provide Continental with an initial US\$20 Million "Coal Loan", through an advance purchase of export coal from the Vaalbank, Project X and Vlakvarkfontein coal mines.

Subsequent to the quarters end, the Company announced that it had reached agreement with EDFT for off-take agreements for its production of export thermal coal from key mines acquired under the Mashala acquisition including the Ferreira, Penumbra and De Wittekrans coal mines. First sales of export thermal coal under this off-take agreement from the Ferreira mine is expected to occur in November 2010.

In addition, Continental has reached agreement with EDF Trading for the advance of US\$20 million from the already documented facility, with US\$15 million to be drawn on completion of the Mashala acquisition and balance on satisfaction of certain milestones. Drawdown is now expected to occur in early November 2010.

Botswana Coal Exploration Projects

As part of the Company's acquisition of Mashala, in addition to securing its existing coal mining operations, related mine infrastructure and extensive portfolio of South African coal assets, the Company will also acquire Mashala's 100% interests in three prospecting licenses (PL 339/2008, PL 340/2008 and PL 341/2008) covering an area of 964km² in Botswana.

The Botswana prospecting licenses, PL 339/2008, PL 340/2008 and PL 341/2008, were awarded to Mashala's wholly owned Botswana subsidiary, Weldon Investment (Pty) Ltd in 2009 and are valid for an initial period of three years. Due to the close proximity of the areas covered by prospecting licences PL 339/2008 and PL 340/2008 these licenses are collectively referred to as the Serowe Project, whilst PL 341/2008 is referred to as the Kweneng Project.

The Kweneng Project is located near to TSX-listed CIC Energy Corporation's Mmamabula prospecting license, which during the quarter was subject to a C\$480 million acquisition proposal by an unnamed Indian conglomerate.

In September 2010, the Company appointed independent South African consulting geologists, Gemecs (Pty) Ltd ("**Gemecs**") to provide a high level assessment and exploration target of the possible coal resources underlying the prospecting licence areas to establish an Exploration Target from which future exploration programs could be focused.

The key findings from Gemecs are summarised in the tables below:

Prospecting License	Potential Coal Bearing Areas (km ²)		Non-Coal Bearing Areas (km ²)
	Shallow-Moderate Depth	Substantial Depth	
339/2008	171	210	0
340/2008	116	200	0
Sorowe Project	287	410	0
341/2008	82	133	57
Kweneng Project	82	133	57

Prospecting License	Exploration Target (In Situ Million Tonnes)		Sub-Total
	Shallow-Moderate Depth	Substantial Depth	
339/2008	1,150	1,400	2,550
340/2008	800	1,350	2,150
Sorowe Project	1,950	2,750	4,700
A Seam	300	500	800
K Seam	400	650	1,050
Kweneng Project	700	1,150	1,850
Total Projects	2,650	3,900	6,550

Gemecs confirmed an Exploration Target of between 6-7 Bt of coal, of which 2.7 Bt of coal at shallow to moderate depth can potentially be exploited by conventional mining methods. It should be noted the Exploration Target is conceptual in nature as there has been insufficient exploration to define a Mineral Resource and that it is uncertain if further exploration will result in the determination of a Mineral Resource. To delineate a resource on this project that is JORC Compliant significant levels of drilling is required.

Following the findings of the Gemecs report, Continental has now agreed, to commit to Gemecs recommended 21 hole wide-spread regional drilling and coal quality analysis program in 2011 to enable an initial JORC compliant resource to be established over the prospecting licence areas.

Vlakovarkfontein Operations Update

Mining activities at Vlakovarkfontein commenced in May 2010 with the first production blast taking place on 27 May 2010.

During the first full quarter of production activities at Vlakovarkfontein 176,744 tonnes of coal was mined (previous quarter 63,877 tonnes), a 177% increase in coal production.

	Jul 10	Aug 10	Sep 10	SEP QTR	JUN QTR	DIFF (%)	YTD
Top-Soil (M ³)	28,820	40,690	-	69,510	65,805	+6%	69,510
Sub-Soil (M ³)	26,505	46,382	11,063	83,950	280,400	-70%	83,950
Total Softs	53,325	87,072	11,063	151,460	346,205	-56%	151,460
Hards (+4 Seam)	146,865	134,876	108,848	390,589	336,762	+16%	390,589
Hards (+2 Seam)	-	7,432	66,710	74,142	-	n.a.	74,142
Total Hards	146,865	142,308	175,558	464,731	336,762	+38%	464,731
4 Seam Coal	101,899	60,140	-	162,039	63,877	+154%	162,039
2 Seam Coal	-	-	14,705	14,705	-	n.a.	14,705
Total Coal	101,899	60,140	14,705	176,744	63,877	+177%	176,744
Summary							
Total Softs	53,325	87,072	11,063	151,460	346,205	-56%	151,460
Total Hards	146,865	142,308	175,558	464,731	336,762	+38%	464,731
Total Coal	101,899	60,140	14,705	176,744	63,877	+177%	176,744

Coal was mined primarily from the 4 seam throughout July. Mining of the 2 seam commenced in August and coal mining activities at Vlakovarkfontein will now continue from both the 4 and 2 seam going forward. Seam widths of both the 4 and 2 seams currently exceed 5.0m.



Mining activities in the open pit at Vlakovarkfontein are now focused on both the No. 4 and No.2 coal seams

Mining in August and September focussed on the hards above the 4 and 2 seams. Planned mining activities expanded away from the initial box cut area and progressively opened up further areas in the pit for mining. Whilst resulting in a scheduled reduction in below target monthly production these activities were completed to allow steady state operations to be achieved going forward, with targeted monthly production of 100,000 tonnes considered readily achievable given current operational performance, increased access within the pit to both the seams and further expansions to the pit following agreement to acquire adjacent farmland.

During the quarter the Company appointed W-Carriers Contracting ("WCC") under a 3 year contract to conduct crushing, screening and stockpiling of 100,000 tonnes per month of the run-of-mine coal to produce a -50mm coal product that will be sold free on truck and at mine gate.



WCC's crushing and screening plant fully operational at Vlakvarkfontein



WCC's stockpiling of a -50mm thermal coal product to be sold to the domestic South African market

In addition WCC will also be responsible for the loading of the coal trucks that are taking delivery of the coal under recently executed coal off-take agreements. At the end of the quarter all site works were completed by WCC and crushing and screening activities are currently achieving their targeted hourly rates.

In August the Company further strengthen its technical team with the appointment of experienced mining engineer and mine manager, Mr Hilton Papenfus as its representative at Vlakvarkfontein. Mr. Hilton Papenfus has over 15 years' experience and was most recently General Manager at the nearby Kendal Coal Mine, operated by TSX listed Homeland Energy.

Sales tonnes for the quarter at Vlakvarkfontein were 146,571 tonnes (previous quarter nil tonnes).

Coal sales at Vlakvarkfontein are through three separate off-take contracts for the sale of a domestic quality thermal coal product. These contracts are generally short term contracts and extend for periods of no more than six month. Contracts are for sale on a free-on-truck basis at the mine gate for a crushed and screened product.

The contracts are with domestic end users and nearby mining operations.

With coal mining activities at Vlakvarkfontein now focused on both the 4 and 2 seams, the Company is negotiating further off-take contracts based on a final blended coal product.

Corporate

During the quarter the Company completed a placement of 400 million new shares to selected sophisticated, institutional and professional investors at an issue price of A\$0.055 per share to raise A\$22 million (before issue costs). The placement received very strong support and was heavily oversubscribed. The placement shares were issued in two tranches with the first tranche of 200 million shares to be issued on 10 August 2010. The balances of 200 million shares were issued following a General Meeting of Shareholders held on 10 September 2010.

The Company also offered existing shareholders the opportunity to subscribe for additional shares at A\$0.055 per share under a share purchase plan (SPP). The SPP was underwritten up to A\$11 million by Max Capital Pty Ltd. Under the SPP, shareholders on the Company's register as at the Record Date of 3 August 2010 were able to subscribe for up to 272,727 new shares at an issue price of \$0.055 per share for a maximum investment of A\$15,000 per shareholder.

The Share Purchase Plan closed heavily oversubscribed on 7 September 2010, and in accordance with the Share Purchase Plan documentation was increased to A\$16 million.

On 25 August 2010 the Company's subsidiary, Continental Coal Limited in South Africa, paid ZAR40 million (AUD\$6.12 million) as finalisation of the Company's 60% economic interest in the Vlakvarkfontein Coal Mine. In addition ZAR10.9 million was paid to replace the associated bank guarantees.

As at 30 September 2010, cash held by the Company and its subsidiary CCL totalled A\$25 million.

Activities Subsequent to Quarter End

Government Approvals Received For Mashala Acquisition

Subsequent to quarters end, the Company's South African subsidiary CLL received confirmation that it had received the necessary approval from the South African Reserve Bank and the South African Department of Minerals and Resources (transfer of the mining rights) for it to complete the acquisition of Mashala.

A\$61 Million Funding Package Secured

Subsequent to quarters end, the Company raised a further A\$61 million in funding, via a A\$10 million convertible note a US\$30 million oversubscribed placement and a US\$20 million coal loan facility from EDFT.

The placement, to institutional investors in Europe and South East Asia and investors in Australia is for 475,950,000 new shares at an issue price of A\$0.064 per share to raise US\$30 million (before issue costs). The placement shares will be issued in two tranches: 200,000,000 immediately under the Company's existing 15% capacity; and 275,950,000 upon shareholder approval at the Company's general meeting to be held on 19 November 2010.

Renaissance Capital, a leading investment bank who recently won the 2010 Investment Bank of the Year award from African Banker magazine and 2010 Best Africa Investment Bank, was sole-bookrunner for the placement to investors outside Australia only.



The A\$10 million convertible note facility was placed to Asian and European based financial institutions on the terms as those previously approved by Shareholders at the General meeting on 10 September 2010.

The funding package allows for the completion of the Mashala Resources acquisition and funds the development costs of the Company's third export focused coal mine at the Penumbra Underground Project.

Repayment of Secured Debt Facility

Subsequent to the quarters end, the Company's A\$13.2 million debt facility was reduced to A\$4 million following the early exercise of the attaching unlisted options and principal repayments.

Outlook for the next quarter

During the December 2010 quarter the Company looks forward to:-

- Financial settlement of the Mashala acquisition
- Integration of the Mashala executive team into Continental's management structure
- Draw down of the EDFT "Coal Loan"
- First export sales from Ferreira
- Board approval for the commencement of development at the Penumbra project
- Mine optimisation studies to commence for De Wittekrans and Vaalbank

By order of the Board

Peter Landau
Executive Director

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Continental Coal Limited (ASX:CCC) is a new Junior South African 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, 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. Continental was formed to take advantage of the robust domestic and global demand for coal, with particular focus on Southern Africa.

The information in this report that relates to the Mineral Resources on the Mashala Projects is based on a resource estimates completed by NJ Denner who is a professional geologist with over 20 years of experience in the South African Mining Industry and sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined by the 2004 Edition of the 'Australasian Code of Reporting of Exploration Results, Mineral Resources and the Ore reserves. NJ Denner is a member of South African Council for Natural Scientific Professions (Membership No. 400060/98) and consents to the inclusion of this information in the form and context in which it appears in this report.

The information in this report that relates to the Exploration Target for the Botswana Project is based on an exploration target completed by Mr Nico Denner who is employed by Geological and Mine Evaluation Computer Services. Mr Denner is a Geologist with 15 years experience in the Southern African Mining Industry and sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and the Ore Reserves. Mr Denner is a Member of South African Council for Natural Scientific Professions (Membership No. 400060/98). Mr Denner consents to the inclusion of this information in the form and context in which it appears in this report.