Continental Coal Ltd

ABN 13 009 125 651

AND CONTROLLED ENTITIES

APPENDIX 4D
FOR THE HALF-YEAR ENDED

31 DECEMBER 2010

GIVEN IN ACCORDANCE WITH ASX LISTING RULE 4.2A.

CONTINENTAL COAL LIMITED
ABN 13 009 125 651
AND CONTROLLED ENTITIES

For the half-year ended 31 December 2010

Results for Announcement to Market

SUMMARY RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2010

The following is a summary of the financial results for the period ended 31 December 2010 (previous corresponding period 31 December 2009).

	Increase/ (Decrease) %	Six months ended 31 December 2010 $	Six months ended 31 December 2009 $
Revenue from ordinary activities	Up 2,444%	12,982,898	531,102
(Loss) before Interest and Tax (EBIT) from ordinary activities	Up 111%	(29,814,171)	(14,127,150)
Income tax benefit	-	-	-
(Loss) for the period attributable to members (NPAT)	Up 100%	(30,804,800)	(15,327,017)

Brief Explanation of above figures
Refer to the Review of Operations on page 2 of the attached Half Yearly Report for the period ended 31 December 2010.

Dividends
There were no dividends declared or paid during the period and the directors do not recommend that any dividend be paid.

Earnings Result

The net loss of Continental Capital Limited for the year ended 31 December 2010 after providing for income tax was $30,804,800 (31 December 2009: $15,327,017).

Earnings Per Share (EPS)	31 December 2010 Cents	31 December 2009 Cents
Basic loss per share (cents per share)	(1.51)	(1.85)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	2,018,937,400	829,221,435

The amount used as the numerator in calculating basic EPS is the same as the net loss reported in the consolidated statement of comprehensive income.

Net Tangible Asset (NTA) Backing Per Share	31 December 2010 Cents	31 December 2009 Cents
Net assets backing per share (cents per share)	3.58	3.75

PETER LANDAU
Executive Director

Dated this 28th day of February 2011

Continental Coal Ltd

ABN 13 009 125 651

AND CONTROLLED ENTITIES

INTERIM FINACIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2010

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by Continental Coal Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*

CONTENTS

CORPORATE DIRECTORY

Directors

Andrew MACAULAY	(Executive Chairman)
Peter LANDAU	(Executive Director)
Bruce BUTHELEZI	(Executive Director)
Jason BREWER	(Executive Director)
Manuel LAMBOLEY	(Non-Executive Director)

Company Secretary

Anthony EASTMAN	(Joint Company Secretary)
Jane FLEGG	(Joint Company Secretary)

Registered Office

Ground Floor, 1 Havelock Street
West Perth WA 6005
Telephone: +61 8 9488 5222
Facsimile: +61 8 9321 7922

Principal Place Of Business

9th Floor Fredman Towers
13 Fredman Drive
Sandton South Africa 2196
Telephone: +27 11 881 1420
Facsimile: +27 11 881 1423
Website: www.conticoal.com
Email: admin@conticoal.com

Auditors

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008
Tel: +61 8 6382 4600
Fax:+61 8 6382 4601

Share Registry

Computershare Investor Services
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000
Telephone: +61 8 9323 2000
Facsimile: +61 8 9323 2033

Home Exchange

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

ASX Code : CCC

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half year ended 31 December 2010.

DIRECTORS

The names of the Directors who held office during or since the end of the half-year:

Andrew MACAULAY	(Executive Chairman)
Peter LANDAU	(Executive Director)
Bruce BUTHELEZI	(Executive Director)
Jason BREWER	(Executive Director)
Manuel LAMBOLEY	(Non-Executive Director)

RESULTS

The consolidated entity incurred an operating loss after tax of $30,804,800 (31 December 2009: $15,327,017).

The loss was primarily due to the Company's aggressive acquisition of high quality production and advanced stage exploration assets in the emerging coal resource industry in South Africa which required loan funding that demanded high interest return and all associated borrowing, facilitation and consultancy costs to support the rapid growth of the group from an emerging coal explorer to a coal producer.

The consolidated entity reported net cash flows from operating activities of $3,133,461 for the period (31 December 2009: ($5,276,060) from its Vlakvarkfontein and Ferreira operating thermal coal mines.

The net assets of the group have increased by $69,575,606 in the 6 month reporting period from $40,225,172 at 30 June 2010 to $109,800,778 as at 31 December 2010.

REVIEW OF OPERATIONS

CORPORATE

During the half year 1 July to 31 December 2010 the Company raised A$98m in new funding, via A$10m from a A$25m convertible note, two oversubscribed placements totalling A$52m, A$16m under a share placement plan and a US$20 million coal loan facility from EDFT.

The first placement of 400 million new shares to select sophisticated, institutional and professional investors at an issue price of A$0.055 per share to raise A$22 m (before issue costs) was completed in early 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 closed heavily oversubscribed on 7 September 2010, and in accordance with the SPP documentation it was increased to A$16 million.

The second placement, to institutional investors in Europe and South East Asia and investors in Australia was for 475,950,000 new shares at an issue price of A$0.064 per share to raise US$30m (before issue costs). 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 the sole-bookrunner for the placement to investors outside Australia only.

In addition, A$10m was made available under an A$25m convertible note facility that was approved by Shareholders at the General Meeting on 10 September 2010, and was placed to Asian and European based financial institutions. In addition, agreement was reached with EDF Trading for the advance of US$20m, with US$15 million to be drawn on completion of the Mashala acquisition and balance on satisfaction of certain milestones. The capital raising was completed to allow the Company to complete the Mashala acquisition.

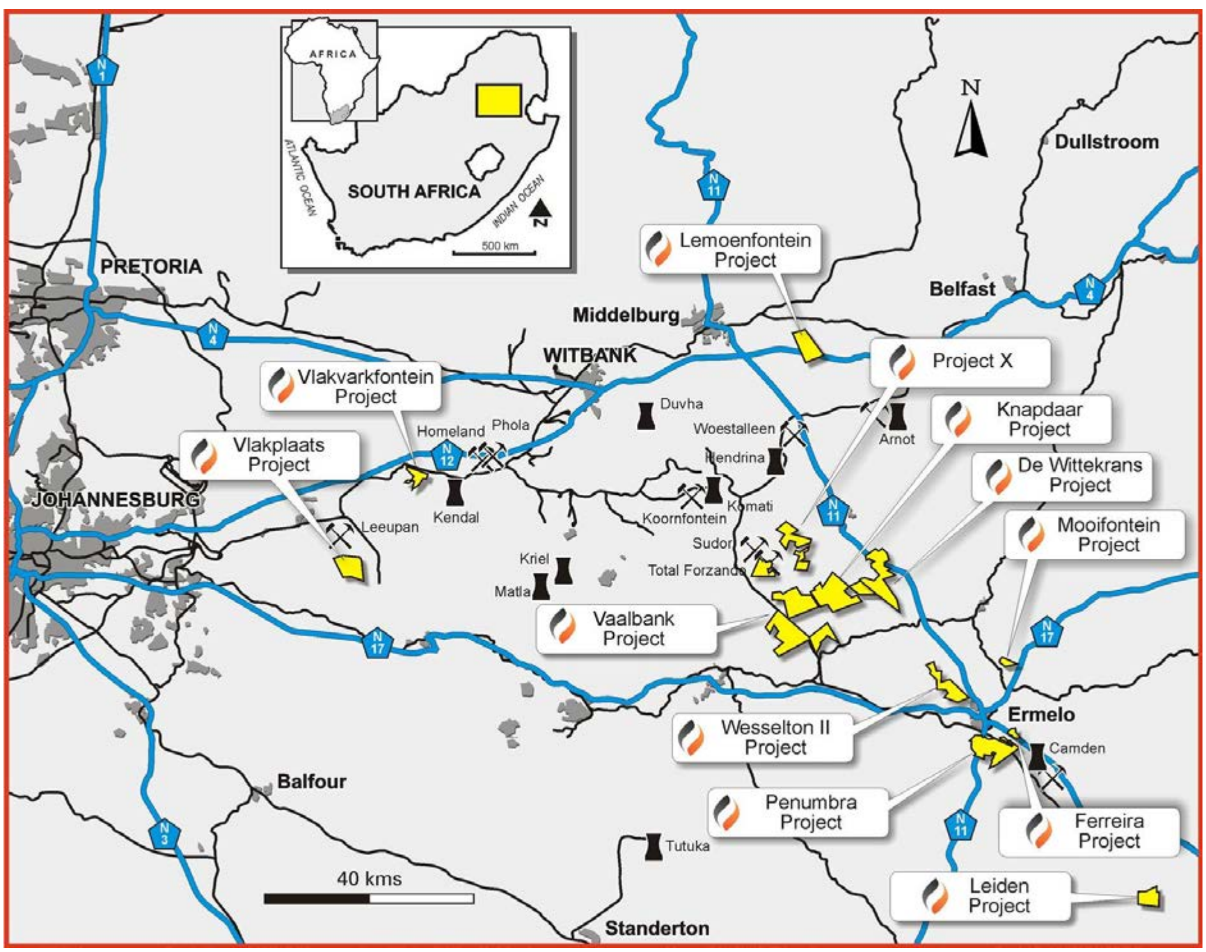
DIRECTORS' REPORT (cont'd)

On completion of the Mashala acquisition, the Company successfully completed off-take agreements with EDF Trading for export thermal coal production from the Ferreira Coal Mine and the proposed Penumbra and De Wittekrans Coal Projects. The offtake agreements were completed on terms consistent with the agreements entered into in July 2010 for its forecast export thermal coal production from the Vaalbank and Project X Coal Projects.

During the half year 1 July to 31 December 2010 the Company continued to aggressively advance its South African coal assets with the completion of two major acquisitions:-

- 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. Ntshovelo has now become a subsidiary of Continental Coal Limited in South Africa: and
- On 1 November 2010 following receipt of all outstanding South African government approvals, including South African Reserve Bank approval and approval from the South African Department of Minerals and Resources, financial settlement of the acquisition of Mashala took place. In accordance with the terms of Share Sale Agreements executed on 15 September 2010 by the group's subsidiary, Continental Coal Limited in South Africa, and Mashala's shareholders, Continental Coal Limited in South Africa acquired a 64.1% shareholding in Mashala for a cash payment of US$35 million. Mashala has now become a subsidiary of Continental Coal Limited in South Africa.

The acquisitions have enabled the Company to be a South African thermal coal producer and exporter through Richards Bay, bringing a strong, proven and experienced South African operational management and extensive established infrastructure with +600Mt of thermal coal resources in South Africa.



MASHALA ACQUISITION

In August 2010 the Company's South African subsidiary 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 Resources.

Mashala is an established unlisted South African coal mining company. Mashala was established in 2003 as a junior coal mining company to take advantage of the opportunities made available to companies under South Africa's Black Economic Empowerment. Since 2003 Mashala had acquired a significant portfolio of operational coal mines, advanced development projects and numerous exploration opportunities in South Africa and Botswana. In addition, Mashala had secured key logistical entitlements to export coal through the Richards Bay Coal Terminal under the Quattro Programme established by the Coal Industry Task Team and administrated by Mhlatuze Bay Coal Administrators (Pty) Ltd.

Mashala has managed and operated its own mines and coal processing and despatch facility since 2003. Its underground operations have been mined by employees whilst the opencast operations are contractor operated.

The key coal mining operations conducted by Mashala to date are:

- the Wesselton Underground, Wesselton Opencast and Geluk underground mines, which operated between 2003 and 2009 prior to their closure as they had reached the end of their life of mine; and

- the Ferreira Opencast and Delta Coal Processing and Despatch Centre, both of which are currently operational. The Delta Processing and Despatch Centre comprises primarily the 300tph coal processing plant and the proprietary 1.2Mtpa Anthra Richards Bay Rail Siding.

Mashala's assets are 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.

The acquisition of Mashala provided the Company with:

- Immediate export production of up to 500,000tpa from the Ferreira opencast mine

- The fully permitted Penumbra Project with the potential to commence development immediately into a planned 840,000tpa run-of-mine underground operation

- An increased project portfolio, with 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 to production by 2015
- An exploration division with 6 drill rigs and support equipment

- Synergies of the Company's Vaalbank and Project X projects with Mashala's contiguous De Wittekrans and Knapdaar projects that have the potential to provide significant capital cost savings and create a highly strategic asset with approximately 400Mt of total in situ resources

- A strengthened executive and operational management team with the integration of all Mashala's key management into the Company's broadened management structure

The Company completed all necessary legal, financial and technical due diligence and entered into a binding heads of agreement on 26 July 2010. Formal sale share agreements were executed on 15 September 2010 and following receipt of all necessary South African regulatory approvals in October 2010, settlement occurred on 1 November 2010.

PROJECT SUMMARY

Project	CCL Interest	CCC Interest	Gross In Situ Project Resources Tonnes (Mt)			Targeted Production (ROM Mtpa)	Forecast Mine Life	Targeted Coal Product	Forecast Production Start
			Inferred	Indicated	Measured				
Vlakvarkfontein	60%[1]	44.4%	-	-	17	1.2	10 - 15	Domestic	Current
Ferreira	64.1%[2]	47.4%	-	-	3	0.7	2 - 3	Export/ Domestic	Current
Penumbra	64.1%[2]	47.4%	3	14	8	0.9	10 - 20	Export/ Domestic	2011
De Wittekrans Complex	64.1% - 75%[3]	47.4% - 55.5%	296	116	12	6 - 7	+30	Export/ Domestic	2011
Vlakplaats	50%		119	3	-	2.4	+20	Export/ Domestic	2013
Leiden	64.1%[2]	47.4%	12	2	4	0.7	15 - 20	Export	2013
Mooifonteinb	64.1%[2]	47.4%	-	-	3	0.6	3 - 5	Export	2014
Wesselton II	64.1%[2]	47.4%	11	5	4	1.2	10 - 15	Domestic	2012/2013
TOTAL			441	140	51	+10.0			

[1] CCL holds a 50% shareholding and a 60% economic interest; [2] The De Wittekrans Complex comprises the De Wittekrans and Knapdaar projects which CCL holds a 64.1% interest through its acquisition of Mashala Resources and has an option to acquire a 100% interest; and also the Project X and Vaalbank projects which CCL holds a 75% and 70% interest respectively [3] CCL has acquired a 64.1% interest through its acquisition of Mashala Resources and has an option to acquire a 100%.

SAFETY

The Company is committed to improving workforce safety across all its operations:

- The Ferreira Coal Mine and Delta Processing Operations have maintained a very strong health and safety record since opencast mining activities commenced. The rolling 12 month Lost Time Injury Rate as at 31 December 2010 is 0 and compares extremely well to the world class benchmark (which is a frequency rate of less than 2).

- The Ferreira Coal Mine and Delta Processing Operations have each achieved 466 and 715 calendar days without Lost Time Injury.

- The Vlakvarkfontein Coal Mine maintained its strong safety record during the period and has achieved 200,529 man-hours since the start of the project without any lost time injuries. The current number of calendar days without Lost Time Injury is 288 days.

VLAKVARKFONTEIN PROJECT

Vlakvarkfontein is located 100km east of Johannesburg. Development activities commenced in February 2010 following the appointment of TMS as the projects mining contractors. Mining activities commenced in May 2010 with the first coal production blast taking place on 27 May 2010. The mine is a conventional open pit operation producing approximately 100,000tpm of domestic quality thermal coal. In July 2010 the Company appointed WCC to conduct contract crushing, screening and stockpiling of the run-of-mine coal to produce a -50mm coal product that is sold "free on truck" at mine gate. Operations at Vlakvarkfontein are forecast to continue over a mine-life of in excess of 10 years.

During the period, 395,430 tonnes of ROM coal was mined (31 December 2009: Nil) and the total free-on-truck costs per ROM production (including mining, haulage, crushing and screening) for the period averaged ZAR109/t.

DIRECTORS' REPORT (cont'd)

PROJECT PRODUCTION PERFORMANCE[1] (tonnes unless stated)			
	DEC 2010	DEC 2009	DIFF (%)
Top-Soil (M ^{3}) Sub-Soil (M ^{3})	74,210 152,195	- -	NA NA
Total Softs	226,405	-	NA
Hards (+4 Seam) Hards (+2 Seam)	743,822 150,843	- -	NA NA
Total Hards	894,664	-	NA
4 Seam Coal 2 Seam Coal	295,894 74,086	- -	NA NA
Total Coal	369,980	-	NA
Summary			NA
Total Softs	226,405	-	NA
Total Hards	894,664	-	NA
Total Coal	395,430	-	NA

[1] Production numbers are for the 100% of the project

Mining continued throughout the period up until 15 December 2010 when mining activities were stopped for the planned contractors break. Mining activities re-commenced subsequent to the period end on 3 January 2011. Mining activities were for the majority of the period confined to the initial box-cut area, although towards the end of the period mining switched from boxcut methods to rollover mining following the acquisition of the adjacent farmland. During the period, coal was mined from both the 4 and 2 seams in Portion 5 of the Farm Vlakvarkfontein 213 IR. First coal from the 2 seam, which averaged 6.5m in thickness, was mined in October 2010 and total production for the period was 74,086 tonnes. Coal from the 4 seam, which averaged 5.85m in thickness, was mined throughout the period with total production of 295,894 tonnes

FERREIRA PROJECT AND DELTA PROCESSING OPERATIONS

Ferreira is an existing conventional opencast mining operation located near the town of Ermelo, approx. 250km south east of Johannesburg. The Delta Processing Operations located 3km from the Ferreira mine comprises a 300tph coal wash plant constructed and commissioned in August 2009 by Fraser Alexander and the 1.2Mtpa Anthra rail siding and load out facilities. The Anthra Rail Siding is one of the closest rail sidings to the Richards Bay Coal Terminal capable of loading jumbo rail cars and is also located less than 1km from Transnet Freight Rail's main Ermelo shunting yard.

Open cast mining at Ferreira commenced in August 2008. The Company assumed operating control on 1 November 2010, following its acquisition of Mashala. Mining activities continued throughout the period from both the Southern Pit and the newly developed Northern Pit up to 15 December 2010 when mining activities were stopped for the planned contractors break. Coal processing operations at the Delta Processing Operations continued throughout the period.

PROJECT PRODUCTION PERFORMANCE[1] (tonnes unless stated)			
	DEC 2010	DEC 2009	DIFF (%)
Overburden (m^3)	493,207	-	NA
Total Softs	493,207	-	NA
B Lower Coal C Upper Coal C Lower Coal	26,437 14,768 29,989	-	NA
Total Coal	71,254	-	NA
Summary		-	NA
Overburden (m^3)	493,207	-	NA
Coal	71,254	-	NA

[1] Production numbers are for the 100% of the project since 1 November 2010

ROM production for the period was 71,254 tonnes (31 December 2009: Nil). Open cast mining for the period was based on pre-stripping and development of the box-cut for the Northern Pit which commenced in November 2010.

DIRECTORS' REPORT (cont'd)

During the period the Company appointed a new mining contractor Stefanutti Stocks Mining to commence mining activities in the Northern Pit. The Company further completed revised mining and scheduling plans for the Northern Pit in conjunction with its mining contractor.

During the period the Delta Processing Operations washed a total of 182,107 tonnes of coal. This comprised both ROM production from the Ferreira Coal Mine and ROM coal purchased from nearby operations, which is blended with the Company's own production. Production of 62,333 tonnes of a primary export thermal coal product and a further 34,440 tonnes of a secondary product was achieved. A primary yield of 53% was achieved.

Export coal product is loaded at the Company's 1.2Mtpa Anthra Rail Siding, located adjacent to the Delta Processing Operations.

During the period, total export coal railed to Richards Bay Coal Terminal was 64,516 tonnes which was sold under contracts realising provisional average gross sales price of US$107.87/t. A further 29,783 tonnes of a lower domestic coal product were sold over the period under a long term contract with Eskom.

PENUMBRA PROJECT

The Penumbra Coal Project is located in the Ermelo coalfield, just south of the town of Ermelo in Mpumalanga Province, South Africa. The project is located less than 3km from the Company's producing Ferreira Coal Mine and 2km from the Company's Delta Processing Operations and Anthra railway siding on the coal-line to Richards Bay, where the Company is currently exporting thermal coal.

Penumbra has a New Order Mining Right and Environmental Management Plan awarded and approved by the Department of Mineral and Resources in March 2010.

During the period the Company formally approved the commencement of the Penumbra development, a key milestone in the Company's plans to significantly increase export quality coal production in the coming years. The decision followed a detailed review by the Company's executive management of the Penumbra Underground Coal Mine Bankable Feasibility Study completed by leading independent South African mining consultants TWP Projects in April 2010.

The project has total resources of 25Mt contained within the C-lower coal seam at an average seam height of 1.8m and a depth of between 50 and 115m. The project is proposed to be developed as a conventional underground bord and pillar mining operation. Access to the coal seam will be achieved by establishing a portal and sinking twin declines at 8 degrees to the coal seam. The declines will be approximately 200m long, one equipped with a conveyor and the second serving as a men and material access route. The declines will also serve as the primary ventilation intakes of the colliery.

Two mechanised coal production sections are planned, each with a continuous miner, one section equipped with three shuttle cars, better suited to mid seam mining heights and one section equipped with battery haulers, better suited to low seam mining heights.

Forecast Penumbra Mine Development Costs	
	Cost (ZAR Million)
General site development	33
Decline development	96
Underground mining equipment	116
Other (incl DMR Guarantee)	39
TOTAL	284

The total forecast development cost of the project are ZAR284m, which includes a contingency of ZAR24m. The development costs cover all surface and underground infrastructure, construction, portal, decline as well as the equipping of two production sections with conveyer and services infrastructure as well as the continuous miners and shuttle cars or battery haulers.

During the period the Company provided the mine surface civil site contract tender documents to six shortlisted civil contractors. Following the award of the contract, the selected contractor is forecast to mobilise in the March 2011 quarter.

At full production, the Penumbra underground mine is forecast (under the Bankable Feasibility Study) to produce 750,000t of ROM coal production annually over an initial 13 year mine life. First coal production is expected in Q4 2011, ramping up to reach full production in the third quarter of 2012. The run-of-mine coal produced at Penumbra will be beneficiated in the existing 300tph coal processing plant and railed through the load-out facility located alongside the Anthra railway siding.

Penumbra is forecast to produce 500,000tpa of a primary export thermal coal product (27.5MJ/kg) and 120,000tpa of a secondary domestic quality thermal coal product (minimum 20MJ/kg). The overall yield is 81%.The primary export coal product of 500,000tpa of thermal coal will be railed from the Anthra Rail Siding, through to the Richards Bay Coal Terminal under the Company's existing rail contracts with state owned rail operator Transnet Freight Rail and sold to EDF Trading under the Company's existing coal off take agreement. Average total FOB costs, for the primary export coal product, of ZAR418/t (approx. US$61/t) in real terms are forecast over the mine life.

DE WITTEKRANS COMPLEX

The De Wittekrans Complex is located in the Ermelo coalfield, 15km southeast of the town of Hendrina in Mpumalanga Province. The De Wittekrans Complex includes the De Wittekrans, Vaalbank, Knapdaar and Project X coal projects that comprise over 400Mt of JORC compliant resources all located within a 15km radius and surrounded by major road and rail infrastructure as well as a number of adjacent major opencast and underground coal mining operations.

All projects with the De Wittekrans Complex have New Order Prospecting Rights awarded by the Department of Minerals and Resources. Applications for a New Order Mining Right for the De Wittekrans, Vaalbank and Project X coal projects have been lodged with the Department of Minerals and Resources and are anticipated to be approved in H2 2011.

During the period, the Board formally approved the commencement of a Bankable Feasibility Study on the De Wittekrans Coal Project. The decision to accelerate development of the De Wittekrans Coal above the other projects within the De Wittekrans Compalex was based on the lower risk profile and capital costs associated with its initial open cast mining operations and the results of the Pre-Feasibility Study and Mining Study completed in 2009.

Independent mining consultants TWP Projects have been appointed as the Study Managers to complete the BFS. The appointment was made after the completion of the acquisition of Mashala and a review of the Pre-Feasibility Study and Mining Study completed in 2009 by SRK by the Company's executive management that confirmed the potential to develop a robust, long-life, low cost opencast and underground coal mining operation at De Wittekrans supplying both the export and domestic coal markets.

The Pre-Feasibility Study and Mining Study completed in 2009 confirmed that the De Wittekrans Coal project was economically and technically viable based on development of a conventional opencast and underground mine targeting production of 3.6 – 4.0Mtpa ROM coal from the 206Mt of JORC compliant resources contained within the A, B and C coal seams within the project area. The average seam width of the A seam is 0.7m and for the B and C coal seams, 2.7m and 2.1m respectively.
A summary of the Pre-Feasibility Study and Mining Study findings are provided below:

De Wittekrans Pre-Feasibility and Mining Study Summary Findings*	
ROM Production	3.6Mtpa
Export Sales	1.1Mtpa
Domestic Sales	1.50Mtpa
Mine Life	30 years
Total FOB Export Product Costs	US$61.00/t

* assumes 40% and 30% domestic and export yield, costs in real terms

Production from the opencast mining areas of the De Wittekrans Coal Project was scheduled in the Mining Study to be completed over an initial minimum 10 year period at an average strip ratio of 4.5:1.

Opencast mining was to be subsequently replaced by underground conventional bord and pillar mining for a further 20 years with access to the underground from the highwalls remaining from the opencast mining operations. The A, B, and C Seams are planned to be targeted for opencast mining at the De Wittekrans Coal Project, and the B and C Seams are targeted for the underground mining areas. The A Seam has not been targeted as a primary seam, but will be recovered from the opencast operations where mining permits.

The run-of-mine coal produced at De Wittekrans is planned to be beneficiated through a 750 – 800tph two stage washing plant using an initial high density wash to remove the high density material, and a secondary wash to separate the export and Eskom coal products. Coal quality analyses completed indicated that the B and the C seams are amenable to washing for a 27.5MJ/kg primary export coal product at an average theoretical yield of some 35% to produce 1.1Mtpa of saleable export thermal coal and a product suitable for domestic sales has also been determined, with a quality of 21MJ/kg at a yield of approx. 40% to produce 1.5Mtpa of saleable domestic thermal coal.

Average total FOB costs for the primary export coal product of ZAR421/t (approx. US$61/t) in real terms are forecast over the 30 year mine life.

The main components of the BFS study to be completed by 30 June 2011 includes:

- Infill reserve and resource definition drilling
- Mineral resource and reserve estimation
- Coal quality analyses
- Open pit and underground mine optimisation, design and scheduling based on updated reserve and resource models
- Process plant and discard design
- Infrastructure and rail load out facility studies
- Environmental studies
- BFS level capital and operating cost estimates
- Mine development timetable
- Detailed financial modelling

VLAKPLAATS PROJECT

The Vlakplaats Coal Project is located approximately 80km east of Johannesburg in the Delmas District, Mpumalanga Province. The nearest towns are Delmas, Devon and Leandra. The project is located 25km southwest of the Company's operating Vlakvarkfontein Coal Mine and on the western edge of the Witbank Coalfield.

The Project has a valid New Order Prospecting Right issued in 2008 and valid for an initial period of 4 years. The Project is well serviced by railways and roads and power lines cross from west to east on the southern portion of the project.

Historical drilling on the Vlakplaats Coal Project has indicated the opportunity to develop both the No. 4 and No. 2 coal seams through conventional open cast and underground mining methods. The No. 2 seam is considered best developed in the central northern portion of the project area, where it has been determined to reach a maximum thickness of approx. 5.5m. Along the northern and eastern areas of the project area the No. 2 seam is considered amenable to open cast mining. The No. 4 seam varies from 0.6m to 8.7m in thickness, with an average thickness of +4.0m and at an average depth of 43m.

Preliminary development studies have indicated that the Vlakplaats Coal Project has the potential to be developed as an initial open cast operation followed by a bord and pillar underground operation mining both the No.2 and No. 4 coal seams and producing up to 150,000tpm of ROM coal for sales to the export and domestic market.

During the period the Company's South African subsidiary CCL entered into an agreement with Korean government's minerals exploration and mining company Korea Resources Corporation ("KORES") to complete the acquisition of the Vlakplaats Coal Project. In addition CCL executed Joint Development and Shareholders Agreements with KORES.

CCL acquired its 50% interest in the project through payment of ZAR50m in 2009 and under the Joint Development and Shareholders Agreements, KORES has acquired a 37% interest in the project by funding ZAR96.2m (A$13.5m) of the ZAR130m (A$18.5m) balance of the ZAR180m (A$26m) total acquisition cost. CCL's BEE partner will contribute ZAR33.8m (A$5m) to secure the remaining 13% interest in the project. Settlement of the transaction remained outstanding as at the end of the period.

Under the terms of the Joint Development and Shareholders Agreement between CCL, KORES and CCL's BEE partner, the parties have established a Special Purpose Vehicle to advance the Vlakplaats project through to completion of a Bankable Feasibility Study. CCL has been appointed as project manager and operator of the Vlakplaats Coal Project and will receive a 2% management fee. CCL is further required to maintain a minimum 30% interest in the project. Exploration, pre-feasibility and bankable feasibility study costs, as well as any development costs associated with the Vlakplaats Coal Project will be funded by the parties in proportion to their respective interests. Where the BEE party is unable to fund its proportionate costs, KORES and CCL will jointly fund the exploration and development activities and the funds will be recoverable from the project prior to the BEE participating in any cash distributions or dividends.

An initial ZAR32.5m budget has been agreed by CCL and KORES to meet the forecast exploration and development costs to take the project through to completion of a Bankable Feasibility Study.

Given the historical work completed and the data already available this is considered sufficient to complete the study within the next 12-18 months and allow a decision to mine to be made. Upon completion of the Bankable Feasibility Study and within 30 days of a decision to mine being made, KORES will also enter into an arms-length coal sales and marketing agreement under which KORES will be granted an exclusive right to take 100% of the export thermal quality coal from the Vlakplaats Coal Project. CCL will similarly enter into an arms-length coal sales and marketing agreement for the sale of all domestic quality thermal coal from the project.

The Joint Development and Shareholders Agreement remains subject to satisfaction of standard conditions precedent including amongst other things approval from the South African Department of Mineral and Resources for the Section 11 transfer of the existing New Order Prospecting Right and finalisation of a subscription agreements with CCL's BEE partner for their ZAR33.8m (A$5m) acquisition of the 13% interest in the project.

KORES is wholly-owned by the Korean government and is focused on establishing itself as a global top 20 mining company by 2020 through participation in world class overseas resource development projects with suitably qualified strategic partners. Korea has designated coal as a strategic raw material for its economic growth and over the past 2 years KORES has been actively involved in various Korean consortiums that have invested over A$1 billion in coal projects worldwide. KORES currently has direct investment in 31 overseas resource projects in 13 countries, including interests in 10 coal mines in Australia producing in excess of 25Mtpa.

The joint development agreement with the Company for the Vlakplaats Coal Project is KORES' first investment in South Africa's coal sector.

BOTSWANA PROJECT

The Company has interests in three prospecting licenses that cover an area of 964km² in Botswana. The projects include the Serowe Coal project (PL 339/2008 and PL 340/2008) and the Kweneng Coal Project (PL 341/2008).

During the period the Company appointed independent South African consulting geologists, Gemecs (Pty) Ltd ("Gemecs") to complete an assessment of the potential of its projects. An Exploration Target of between 6-7 Bt of coal was determined by Gemecs, of which 2.7 Bt of coal at shallow to moderate depth was considered to have the potential to 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).

Based on the Gemecs assessment, the Company agreed, that upon completion of the Mashala acquisition it would 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 at the Projects.

During the peiod the Board approved an initial ZAR20m exploration budget for Botswana and increased the proposed exploration drilling program from recommended 21 holes to 90 holes.

The Board believe that the Company's two projects in Botswana represent a significant opportunity to participate in a potentially world class coal field that has attracted substantial interest from major Indian and Chinese parties looking to secure long-term supplies of thermal coal. During the period TSX listed coal exploration company CIC Energy Corporation, who hold a 100% interest in the Mmamabula Coal Project, which has a resource of 2.66Bt of thermal coal, agreed to a C$422m acquisition by a major Indian power company. The Mmamabula Project is located immediately east of the Company's Kweneng Coal Project.

EVENTS SUBSEQUENT TO REPORTING DATE

- On 27 January 2011 the Company announced that the Kenyan Ministry of Energy had informed the Company that its Expression of Interest (EOI) to participate in coal exploration and development of Kenya's Mui Coal Basin had been accepted.

DIRECTORS' REPORT (cont'd)

AUDITORS INDEPENDENCE DECLARATION

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 13 for the half-year ended 31 December 2010.

This report is made in accordance with a resolution of the Board of Directors.

PETER LANDAU
Executive Director

Dated this 28th day of February 2011

Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

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

28th February 2011

Continental Coal Ltd
The Board of Directors
Ground Floor, 1 Havelock Street
WEST PERTH WA 6008

Dear Sirs,

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

As lead auditor for the review of Continental Coal Limited for the half-year ended 31 December 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 review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

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

Glyn O'Brien
Director

BDO

BDO Audit (WA) Pty Ltd
Perth, Western Australia

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED
31 DECEMBER 2010

	Note	31 December 2010 $	31 December 2009 $
Revenue from continuing operations	2	12,276,552	-
Interest income		202,525	12,940
Other income	2	503,821	518,162
Cost of sales	3	(12,588,400)	-
Employee benefits expense	3	(1,521,660)	(803,106)
Depreciation expense		(181,541)	(37,572)
Finance costs			
Interest	3	(990,630)	(1,199,867)
Borrowing costs	3	(7,058,386)	(6,160,049)
Consulting costs	3	(10,116,186)	(1,076,718)
Provision for impairment	3	-	(1,187,117)
Other expenses	3	(11,330,895)	(5,393,690)
Loss before income tax expense		(30,804,800)	(15,327,017)
Income tax expense		-	-
Loss from continuing operations after income tax expense		(30,804,800)	(15,327,017)
Loss for the period		(30,804,800)	(15,327,017)
Other Comprehensive Income/(Loss)			
Exchange differences on translation of foreign operations		(2,834,650)	(252,543)
Other comprehensive income/(loss) for the year, net of tax		(2,834,650)	(252,543)
Total comprehensive income/(loss) for the year		(33,639,450)	(15,579,560)
Net loss is attributable to:			
Owners of Continental Coal Limited		(28,111,311)	(15,327,017)
Non-controlling interests		(2,693,489)	-
		(30,804,800)	(15,327,017)
Total comprehensive loss is attributable to:			
Owners of Continental Coal Limited		(30,297,743)	(15,579,560)
Non-controlling interests		(3,341,707)	-
		(33,639,450)	(15,579,560)
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)		(1.51)	(1.85)
Diluted loss per share (cents per share)		n/a	n/a

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT
31 DECEMBER 2010

	Note	31 December 2010 $	30 June 2010 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	9,195,508	39,822
Trade and other receivables	6	5,844,019	890,877
Prepaid borrowing costs	7	259,368	1,775,644
Inventories	8	4,224,880	-
		19,523,775	2,706,343
Non-current assets classified as held for sale	4	9,910,343	9,758,024
TOTAL CURRENT ASSETS		29,434,118	12,464,367
NON-CURRENT ASSETS			
Prepaid borrowing costs		-	15,948
Available-for-sale financial assets	9	-	113,437
Exploration expenditure	12	110,911,117	47,588,978
Property, plant and equipment	13	16,992,385	9,412,236
Other financial assets	14	-	8,835,750
TOTAL NON-CURRENT ASSETS		127,903,502	65,966,349
TOTAL ASSETS		157,337,619	78,430,716
CURRENT LIABILITIES			
Trade and other payables	15	12,483,406	14,014,746
Deferred revenue	16	15,161,479	1,606,500
Borrowings	18	4,750,000	19,794,870
		32,394,885	35,416,118
Accruals relating to held for sale assets	4	-	557,754
TOTAL CURRENT LIABILITIES		32,394,885	35,973,872
NON-CURRENT LIABILITIES			
Trade and other payables	15	60,959	-
Provision for rehabilitation	17	9,180,997	2,231,672
Borrowings	18	5,900,000	-
TOTAL NON-CURRENT LIABILITIES		15,141,955	2,231,672
TOTAL LIABILITIES		47,536,841	38,205,544
NET ASSETS		109,800,778	40,225,172
EQUITY			
Issued capital	19	195,358,526	100,829,337
Shares and options to be issued		-	90,000
Reserves		25,616,818	19,027,383
Accumulated losses		(105,217,891)	(77,106,580)
Capital and reserves attributable to owners of Continental Coal Limited		115,757,453	42,840,140
Less: Amounts attributable to non-controlling interests	20	(5,956,675)	(2,614,968)
TOTAL EQUITY		109,800,778	40,225,172

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED
31 DECEMBER 2010

	Share Capital Ordinary $	Accumulated Losses $	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 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 period	-	(15,327,017)	-	-	-	-	(15,327,017)	-	(15,327,017)
Available-for-sale financial assets	-	-	-	-	-	-	-	-	-
Exchange differences on translation of foreign operations	-	-	(252,543)	-	-	-	(252,543)	-	(252,543)
Total comprehensive income for the half-year	-	(15,327,017)	(252,543)	-	-	-	(15,579,560)	-	(15,579,560)
Transactions with owners in their capacity as owners:									
Shares issued during the period	36,604,213	-	-	-	-	(16,294,698)	20,304,515	-	20,304,515
Transaction costs	(1,691,877)	-	-	-	-	-	(1,691,877)	-	(1,691,877)
Share based payment reserve	-	-	-	-	10,472,300	-	10,472,300	-	10,472,300
Balance at 31 December 2009	89,066,934	(67,577,447)	(17,718)	652,602	16,612,114	-	38,736,486	-	38,736,486
Balance at 1 July 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
Loss for the period	-	(28,111,311)	-	-	-	-	(28,111,311)	(2,693,489)	(30,804,800)
Exchange differences on translation of foreign operations	-	-	(2,186,432)	-	-	-	(2,186,432)	(648,218)	(2,834,650)
Total comprehensive income for the half-year	-	(28,111,311)	(2,186,432)	-	-	-	(30,297,743)	(3,341,707)	(33,639,450)
Transactions with owners in their capacity as owners:									
Shares issued during the period	99,315,305	-	-	-	-	-	99,315,305	-	99,315,305
Transaction costs	(4,786,116)	-	-	-	-	-	(4,786,116)	-	(4,786,116)
Unissued shares/options	-	-	-	-	-	(90,000)	(90,000)	-	(90,000)
Share based payment reserve	-	-	-	-	8,775,867	-	8,775,867	-	8,775,867
Balance at 31 December 2010	195,358,526	(105,217,891)	(1,979,044)	652,602	26,943,260	-	115,757,453	(5,956,675)	109,800,778

The accompanying notes form part of these financial statements

.CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED
31 DECEMBER 2010

	Note	31 December 2010 $	31 December 2009 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		22,252,229	-
Interest received		202,525	12,940
Payments to suppliers and employees		(19,321,293)	(5,289,000)
Net cash from/(used in) operating activities		3,133,461	(5,276,060)
CASH FLOWS FROM INVESTING ACTIVITIES			
Exploration expenditure	12	(12,623,410)	(13,392,743)
Development costs	13	(2,192,939)	-
Purchase of other non-current assets		-	(110,044)
Payment for acquisition of subsidiaries net of cash acquired	10	(45,595,797)	
Net cash (used in) investing activities		(60,412,146)	(13,502,787)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares, net of transaction costs		73,723,591	14,828,123
Proceeds from borrowings		5,900,000	7,000,000
Finance costs		(6,375,990)	(1,963,528)
Repayment of borrowings		(6,813,229)	(465,906)
Net cash provided by financing activities		66,434,372	19,398,689
Net increase in cash held		9,155,686	619,842
Cash at beginning of the half- year		39,822	89,782
Cash at end of the half- year	5	9,195,508	709,624

The accompanying notes form part of these financial statements.

Note 1: Basis of Preparation

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001 and Accounting Standard AASB 134: Interim Financial Reporting.

The half year financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, it is recommended that these financial statements be read in conjunction with the annual financial report for the year ended 30 June 2010 and any public announcements made by Continental Coal Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below.

Reporting Basis and Conventions
The half-year financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Inventories
Inventories are valued at the lower of cost and net realisable value. Cost is determined primarily on the basis of weighted average costs. Cost for raw materials and stores is purchase price and for partly processed and saleable products cost is derived on an absorption costing basis. For this purpose the costs of production include:

- Labour costs, materials and contractor expenses which are directly attributable to the extraction and processing of coal;
- The amortisation of development expenditure and depreciation of property, plant and equipment used in the extraction and processing of coal; and
- Production overheads, including attributable mining and manufacturing overheads.

Stockpiles represent both raw coal and crushed and screened coal and is available for sale. If there is significant uncertainty as to when the stockpiled ore will be processed it is expensed as incurred. Where the future processing of this ore can be predicted with confidence (if, for example, it exceeds the mine's cut off grade), it is valued at the lower of cost and net realisable value. If the ore will not be processed within 12 months after the balance date it is included within non-current assets. Quantities are assessed primarily through surveys and assays.

Going Concern
At 31 December 2010, the consolidated entity has $29,434,118 of current liquid assets and $32,394,885 of current liabilities.

The accounts have been prepared on the basis that the entity can meet it's 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.

The ability of the enitity to continue as a going concern is dependent upon the Company raising funding for future activities through the issue of equity or debt and obtaining and providing continued funding for the coal projects. The Directors consider that there are reasonable grounds to believe that the Company will continue to raise equity and/or debt to meet its short to medium term funding requirements.

Note 2: Revenue and other income	31 December 2010 $	31 December 2009 $
Revenue from Continuing operations		
- Export coal sales	9,676,560	-
- Eskom coal sales	522,402	-
- Other coal sales	2,077,590	-
Total revenue from continuing operations	12,276,552	-
Other income		
- Foreign exchange gain on revaluation of USD and ZAR loans	485,258	518,162
- Net gain on sale of assets	18,563	-
Total other income	503,821	518,162

Note 3: Profit/(loss) for the year

(a) Loss before income tax includes the following specific expenses:

Cost of sales		
- Mining	7,888,982	-
- Processing	1,135,625	-
- Materials handling	607,406	-
- Indirect costs	316,201	-
- Export costs	1,476,891	-
- Bought in coal	4,262,351	-
- Closure costs	241,157	-
- Administration costs	212,407	-
- Mining Royalties	14,369	-
- Stock on hand movement	(3,566,989)	-
Total cost of sales	12,588,400	-
Finance costs		
- Interest and finance charges	990,630	1,199,867
- Options issued in respect of EDFT coal loan	4,288,880	-
- Unwinding of prepaid borrowing costs	1,532,229	6,160,049
- Other borrowing costs	1,237,276	-
Total finance costs	8,049,015	7,359,916
Impairment		
- Impairment of available-for-sale investments - unrealised	-	48,751
- Write off exploration expenses from continuing operations	-	1,138,366
Total impairment	-	1,187,117
Depreciation	181,541	37,572
Other Expenses:		
- Employee related costs	1,521,660	803,106
- Directors fees *	4,841,456	580,570
- Pre feasibility costs in relation to South African projects	2,946,988	-
- Consultants (including share based payments), facilitation & capital raising	10,116,186	1,448,533
- Legal fees	183,227	410,906
- Occupancy	213,894	154,657
- Other expenses	3,236,089	3,875,742

* Includes an amount of $3,544,064 for the issue of 100,000 Unlisted Director Options exercisable at 7.5 cents on or before 31 December 2013 as approved by shareholders at the Company's Annual General Meeting on 19 November 2010. Refer to Related Party Note 25 and Share Based Payment Note 26

Note 4: Non-current assets classified as held-for-sale

	31 December 2010 $	30 June 2010 $
Investment in Vanmag	9,910,343	9,758,024
	9,910,343	9,758,024
Liabilities directly associated with Vanmag	-	557,754
	-	557,754

During the 2009 financial year, 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 March 2011.

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 31 December 2010 or 30 June 2010 because the investment is classified as held for sale in accordance with AASB 5.

Note 5: Cash and Cash Equivalents

	31 December 2010 $	30 June 2010 $
Cash at bank and in hand (i)	9,195,508	39,822
	9,195,508	39,822
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	9,195,508	39,822
	9,195,508	39,822

(i) includes cash restricted under guarantees in the amount of $5,208,580 (30 June 2010: nil)

Note 6: Trade and Other Receivables

	31 December 2010 $	30 June 2010 $
CURRENT		
Trade receivables	3,579,303	-
Other receivables	2,264,716	890,877
Total trade and other receivables	5,844,019	890,877

Note 7: 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.

(a) Secured debt facility

The Group incurred the following borrowing costs to secure the $20 million AUD secured debt facility (of which $15.25m has been repaid):

	31 December 2010 $	30 June 2010 $
Share-based payments	259,368	1,775,644
Total	259,368	1,775,644

The transaction costs have been amortised over the two year life of the loan and expensed immediately where loans have been settled, resulting in $1,532,224 of expense recognised at 31 December 2010 (31 December 2009: $3,879,348) on top of interest that has been paid or accrued for on this loan at 31 December 2010.

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

	31 December 2010		
	Secured debt facility	Secured loan other	Total
Opening Balance	9,337,646	857,928	10,195,574
Accumulated expense	(9,078,278)	(857,928)	(9,936,206)
	259,368	-	259,368

	Secured debt facility	Secured loan other	Total
Current - Borrowing Costs	259,368	-	259,368
Total Current	259,368	-	259,368
Total	259,368	-	259,368

	30 June 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
Total	1,791,592	-	1,791,592

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED
31 DECEMBER 2010

Note 8: Inventories

	31 December 2010 $	30 June 2010 $
CURRENT		
Coal stockpiles – at cost	4,224,880	-
Total coal stockpiles	4,224,880	-

Note 9: Available-for-sale Financial Assets

	31 December 2010 $	30 June 2010 $
NON-CURRENT		
Available-for-sale financial assets	-	113,437
	-	113,437

Available-for-sale financial assets comprise:

NON-CURRENT		
Listed investments, at fair value		
- Shares in listed Australian corporations	-	113,437
	-	113,437

Note 10: Business combinations

1. Summary of Acquisition – Ntshovelo Mining Resources

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. Ntshovelo has now become a subsidiary of Continental Coal Limited in South Africa.

The business combination is provisionally accounted for at 31 December 2010 pending finalisation of fair values of assets and liabilities acquired.

The acquired business contributed revenues of $2,037,261 and (net loss) of ($40,210) to the group from 25 August 2010 to 31 December 2010.

(a) Purchase consideration

The purchase consideration for the acquisition is cash payments totalling Rand 56m (AUD $8,590,960). This amount was paid in two instalments, a deposit of $2,470,960 prior to 30 June 2010 and the balance of $6,120,000 on 25 August 2010.

2. Summary of Acquisition – Mashala Resources

On 1 November 2010 following receipt of all outstanding South African government approvals, including South African Reserve Bank approval and approval from the South African Department of Minerals and Resources, financial settlement of the acquisition of Mashala took place. In accordance with the terms of Share Sale Agreements executed on 15 September 2010 by the group's subsidiary, Continental Coal Limited in South Africa, and Mashala's shareholders, Continental Coal Limited in South Africa acquired a 64.1% shareholding in Mashala for a cash payment of US$35 million. Mashala has now become a subsidiary of Continental Coal Limited in South Africa.

The business combination is provisionally accounted for at 31 December 2010 pending the finalisation of fair values of assets and liabilities acquired.

Note 10: Business combinations (cont'd)

The acquired business contributed revenues of $10,000,990 and (net loss) of ($668,506) to the group from 1 November 2010 to 31 December 2010.

(a) Purchase consideration

The purchase consideration for the acquisition of a 64.1% majority interest was a cash payment of US$35m

The Group has the option to purchase the remaining 35.9% within a 12 month period for a combination of cash and shares. The Group has also granted a put option over the 35.9% to the non-controlling shareholders which can be settled in cash or shares.

3. Summary of cashflows

Total consideration paid	46,136,900
Total cash acquired	(541,103)
Net cashflow impact	45,595,797

Note 11: Controlled Entities

The consolidated financial statements include the assets, liabilities and results of the following subsidiaries.

Controlled Entities Consolidated	Country of Incorporation	Percentage Owned (%)*	
		31 December 2010	30 June 2010
Subsidiaries of Continental Coal Limited:			
Continental Coal Ltd (i)	South Africa	74	74
Subsidiaries of Continental Coal Ltd			
Big Match 33 (Pty) Ltd	South Africa	100	100
Tsimpilo Trading 45 (Pty) Limited	South Africa	100	100
Taboo Trading 137 (Pty) Ltd	South Africa	100	100
Ntshovelo Mining Resources (Pty) Ltd (ii)	South Africa	50	-
Mashala Resources (Pty) Ltd	South Africa	64.1	-
Subsidiaries of Mashala Resources (Pty) Ltd			
Namib Drilling (Pty) Ltd	South Africa	64.1	-
Wessleton opencast (Pty) Ltd	South Africa	64.1	-
BW Mining (Pty) Ltd	South Africa	64.1	-
Copper Sunset Trading 148 (Pty) Ltd	South Africa	64.1	-
Mandla Coal Resources (Pty) Ltd	South Africa	64.1	-
Penumbra Coal Mining (Pty) Ltd	South Africa	64.1	-

** Percentage of voting power is in proportion to ownership*

Note 11: Controlled Entities (cont'd)

(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) Ntshovelo – 60% economic interest even though 50% equity interest.

Note 12: Exploration Expenditure

	31 December 2010 $	30 June 2010 $
NON-CURRENT		
Exploration expenditure capitalised		
- Exploration and evaluation phases – direct	84,938,391	28,645,092
- Exploration and evaluation phases – in direct (i)	25,972,726	18,943,886
Total exploration expenditure	110,911,117	47,588,978

The increase in capitalised exploration expenditure is primarily due to the acquisition of Mashala Resources and Ntshovelo Mining Resources as disclosed in note 10.

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	MP 300 MR	Ntshovelo Mining Resources (Pty) Ltd	Ntshovelo Mining Resources (Pty) Ltd
Vaalbank	MP 1689 PR	Misty Sea Trading 262 (Pty) Ltd	Kebragen (Pty) Ltd.
Project X	MP 1640 PR	Misty Sea Trading 262 (Pty) Ltd	Idada Trading 310 (Pty) Ltd
Vlakplaats	MP 1520 PR	Universal Pulse Trading 132 (Pty) Ltd	Continental Coal Limited
Lemoenfontein	MP 1442 PR	Xivono Mining (Pty) Ltd	City Square Trading 437 (Pty) Ltd
Ferreira	MP 345 MR	Mashala Resources (Pty) Ltd	Mashala Resources (Pty) Ltd
Knapdaar	MP 1494 PR	Mashala Resources (Pty) Ltd	Mashala Resources (Pty) Ltd
Leiden	MP 401 PR	Mashala Resources (Pty) Ltd	Mashala Resources (Pty) Ltd
Mooifontein Ptn 13	MP 713 PR	Mashala Resources (Pty) Ltd	Mashala Resources (Pty) Ltd
Mooifontein Ptn 16	MP 353 PR	Mashala Resources (Pty) Ltd	Mashala Resources (Pty) Ltd
Wesselton II	MP 231 MR	Mashala Resources (Pty) Ltd	Mashala Resources (Pty) Ltd
Penumbra	MP 247 MR	Penumbra Coal Mining (Pty) Ltd	Penumbra Coal Mining (Pty) Ltd
De Wittekrans	MP 97 PR MP 365 MR	Mashala Hendrina Coal (Pty) Ltd	Mashala Hendrina Coal (Pty) Ltd

Note 12: Exploration Expenditure (cont'd)

(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	31 December 2010	30 June 2010	31 December 2010	30 June 2010
			Percentage owned		Carrying amount	
			%	%	$	$
Misty Sea 262 (Pty) Ltd	Unlisted	South Africa	49	49	25,972,726	18,943,870
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
					25,972,726	18,943,886

Note 13: Property, Plant & Equipment

	31 December 2010 $	30 June 2010 $
NON-CURRENT		
- Property, Plant & Equipment at cost	17,139,906	9,488,012
- Accumulated depreciation	(147,521)	(75,776)
Total Property, Plant & Equipment	16,992,385	9,412,236

Development expenditure primarily related to Vlakvarkfontein and Penumbra has been included within property, plant and equipment at 31 December 2010 pending the finalisation of acquisition date fair value calculations including the attributions of those fair values to the specific assets acquired. Development expenditure includes mining infrastructure assets under construction and environmental assets for closure costs.

Note 14: Other Financial Assets

	31 December 2010 $	30 June 2010 $
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 2010 financial year and the balance of $6,120,000 was settled on 25 August 2010. The $6,120,000 was accrued for at 30 June 2010 as Continental had an obligation to pay the balance at that time. Ntshovelo has now become a subsidiary of Continental Coal Limited in South Africa.

Note 15: Trade and Other Payables

	31 December 2010 $	30 June 2010 $
CURRENT		
Unsecured liabilities		
Trade payables	9,643,197	4,762,409
Sundry payables and accrued expenses	2,543,842	2,268,010
Option Fee – Lemoenfontein (i)	9,024	9,298
Deferred purchase liability – Vlakvarkfontein (ii)	-	6,120,000
Accrued interest	287,342	855,029
	12,483,406	14,014,746
Accruals relating to held for sale assets (note 4)	-	557,754
	12,483,406	14,572,500
NON-CURRENT		
Accrued interest	60,959	-
	60,959	-

(i) In 2009, the Group had 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. As at half-year ended 31 December 2010 the option has not been exercised.

(ii) Relates to the balance of the acquisition cost of the Vlakvakfontein Coal mine which was paid on 25 August 2010.

Note 16: Deferred Revenue

Deferred revenue relates to:-

31 December 2010 – the prepayment by EDF Trading of a Coal Supply Agreement (secured over the Company's South African Mining interests) relating to the Ferreira Coal Mine. US $15m of the contracted US$20m has been received to 31 December 2010.
30 June 2010 - the prepayment of the sale of the first 100,000 tonnes of run-of-mine coal from the Vlakvarkfontein coal mine.

	31 December 2010 $	30 June 2010 $
Deferred income	15,161,479	1,606,500
	15,161,479	1,606,500

Note 17: Provision for Rehabilitation

Relates to environmental liability for the Vlakvarkfontein and Ferreira Coal Mines. 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.

	31 December 2010 $	30 June 2010 $
Mining rehabilitation fund	9,180,997	2,231,672
	9,180,997	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 period	2,231,672	-
Provision acquired with the Ntshovelo Mining Resources acquisition	14,960	-
Provision acquired with the Mashala Resources acquisition	6,753,880	-
Additional provision recognised	180,485	2,231,672
Carrying amount at the end of the period	9,180,997	2,231,672

Note 18: Borrowings

	31 December 2010 $	30 June 2010 $
CURRENT		
Secured loans from related parties 2010 (i)	-	915,000
Unsecured loans other 2010 (ii) (iii) (iv)	-	3,121,176
Secured loan other (v)	-	2,558,696
Debt facility - secured 2010 (vi)	4,750,000	13,200,000
	4,750,000	19,794,872
NON -CURRENT		
Convertible Note - Unsecured(vii)	5,900,000	-
	5,900,000	-

31 December 2010

(vi) 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 $4,750,000. 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. It is expected that this amount will be settled in shares.

(vii) Convertible Note Facility approved by shareholders on 10 September 2010. The note is for a term of 36 months from commitment date with a coupon rate of 15% payable half yearly in arrears in either cash or shares converted at the higher of 8 cents or a 5% discount to the 30 day VWAP per share

Note 18: Borrowings (cont'd)

30 June 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
(ii) Loan is interest bearing at 10% per annum and repayable on or before 31 December 2010 in USD 2,500,000
(iii) 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.
(iv) Loan is interest bearing at 10% per annum and repayable on or before 31 December 2010 in AUD 2,558,696
(v) 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.

Note 19: Issued capital

31 December 2010: 3,097,640,409 (31 December 2009:1,106,075,932)

(a) Movement 2010	No.	$
Balance at 1 July	1,376,191,741	100,829,337
Issue of ordinary shares during the half-year:		
Placements	875,950,000	52,460,800
Share Purchase Plan	290,909,090	16,000,000
Exercise options	294,056	14,703
Conversion of debt	143,310,349	8,038,944
Conversion of debt facility	132,000,000	6,628,000
Conversion of convertible note	60,000,000	3,644,406
Consultants fees	66,771,377	4,206,348
In lieu of introduction & capital raising fees	92,213,796	5,901,682
Facilitation Fees for coal project funding	60,000,000	3,500,000
Share issue costs		(5,865,694)
Balance at the end of the half-year	3,097,640,409	195,358,526

(b) Movement 2009	No.	$
Balance at 1 July	446,285,000	54,154,598
Issue of ordinary shares during the half-year:		
Placements	302,666,665	16,454,000
Milestone shares for the Acquisition of 74% of Continental Coal Limited South Africa	180,000,000	11,340,000
Conversion of debt	78,124,266	3,906,213
Conversion of debt facility	68,000,000	3,400,000
Facilitation fees for coal asset acquisitions	20,000,000	860,000
Consultants fees	11,000,000	644,000
Share issue costs	-	(1,691,877)
Balance at the end of the half-year	1,106,075,932	89,066,934

Note 19: Issued capital (cont'd)

(c) Options

	31 December 2010 No.	31 December 2009 No.
689,440,326 (2009: 363,570,470) listed options exercisable at 5 cents on or before 13 February 2013		
Movement in unlisted options		
Balance at the beginning of the half-year	363,570,470	20,000,000
Issues of options during the half-year	326,163,912	343,520,470
Exercise of options during the half-year	(294,056)	-
Balance at the end of the half-year	689,440,326	363,570,470
Nil (2009: 76,633,333) unlisted options exercisable at 20 cents on or before 30 June 2010		
Movement in unlisted options		
Balance at the beginning of the half-year	-	76,633,333
Issues of options during the half-year	-	-
Balance at the end of the half-year	-	76,633,333
Nil (2009: 25,000,000) unlisted options exercisable at 15 cents on or before 30 June 2010		
Movement in unlisted options		
Balance at the beginning of the half-year	-	25,000,000
Issues of options during the half-year	-	-
Balance at the end of the half-year	-	25,000,000
60,000,000 (2009:60,000,000) unlisted options exercisable at 15 cents on or before 19 October 2011		
Movement in unlisted options		
Balance at the beginning of the half-year	60,000,000	-
Issues of options during the half-year	-	60,000,000
Balance at the end of the half-year	60,000,000	60,000,000

Note 19: Issued capital (cont'd)

60,000,000 (2009:60,000,000) unlisted options exercisable at 20 cents on or before 19 October 2011

Movement in unlisted options		
Balance at the beginning of the half-year	60,000,000	-
Issues of options during the half-year	-	60,000,000
Balance at the end of the half-year	60,000,000	60,000,000

Nil (2009:50,000,000) unlisted options exercisable at 5 cents on or before 13 February 2013

Movement in unlisted options		
Balance at the beginning of the half-year	50,000,000	-
Issues of options during the half-year	-	50,000,000
Exercise of options during the half-year	(50,000,000)	-
Balance at the end of the half-year	-	50,000,000

40,000,000 (2009:nil) unlisted options exercisable at 5 cents on or before 16 July 2016

Movement in unlisted options		
Balance at the beginning of the half-year	-	-
Issues of options during the half-year	40,000,000	-
Balance at the end of the half-year	40,000,000	-

40,000,000 (2009:nil) unlisted options exercisable at 10 cents on or before 16 July 2016

Movement in unlisted options		
Balance at the beginning of the half-year	-	-
Issues of options during the half-year	40,000,000	-
Balance at the end of the half-year	40,000,000	-

16,275,486 (2009:nil) unlisted options exercisable at 6.4 cents on or before 31 October 2015

Movement in unlisted options		
Balance at the beginning of the half-year	-	-
Issues of options during the half-year	16,275,486	-
Balance at the end of the half-year	16,275,486	-

Note 19: Issued capital (cont'd)

Nil (2009:116,000,000) unlisted call options exercisable at 5 cents on or before 6 August 2013

Movement in unlisted options		
Balance at the beginning of the half-year	116,000,000	80,000,000
Issues of options during the half-year	-	70,000,000
Exercise of options during the half-year	(116,000,000)	(34,000,000)
Balance at the end of the half-year	-	116,000,000

100,000,000 (2009: nil) unlisted directors options exercisable at 7.5 cents on or before 31 Dec 2013

Movement in unlisted options		
Balance at the beginning of the half-year	-	-
Issues of options during the half-year	100,000,000	-
Balance at the end of the half-year	100,000,000	-

Nil (2009: nil) unlisted directors options exercisable at 15 cents on or before 31 Dec 2009

Movement in unlisted options		
Balance at the beginning of the half-year	-	10,000,000
Issues of options during the half-year	-	-
Expired during the half-year	-	(10,000,000)
Balance at the end of the half-year	-	-

Nil (2009: nil) unlisted directors options exercisable at 20 cents on or before 31 Dec 2009

Movement in unlisted options		
Balance at the beginning of the half-year	-	10,000,000
Expired during the half-year	-	(10,000,000)
Balance at the end of the half-year	-	-

Note 20: Non-controlling Interests

	31 December 2010 $	30 June 2010 $
Interests in:		
Retained earnings (accumulated losses)	(5,308,457)	(2,605,328)
Reserves	(648,218)	(9,640)
	(5,956,675)	(2,614,968)

Note 21: Capital, Leasing and Other Commitments

	31 December 2010 $	30 June 2010 $
(a) Capital expenditure commitments		
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Exploration and related commitments	66,379,500	171,589,869
	66,379,500	171,589,869
Payable:		
- Up to 12 months	-	6,120,000
- Between 12 months and 5 years	66,379,500	165,469,869
	66,379,500	171,589,869

(b) Lease commitments

	31 December 2010 AUD *	30 June 2010 AUD *
Operating lease payments		
Premises: Contractual amounts	213,894	250,797
Equipment: Contractual amounts	685,745	5,717
	899,639	256,514
Estimated operating lease payments for the following periods are:		
Year 1	4,433,390	318,920
Year 2 - 5	13,014,249	670,836
	17,447,639	989,757

* 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.

(c) Other commitments

The Group committed an equity incentive for Chief Executive Officer Lodewyk “Don” Turvey being 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. These equity incentives had shareholder approval at the Company’s Annual General Meeting on 19 November 2010. As at the date of this report these equity incentives have not been issued or accounted for and may require re-approval at a general meeting of shareholders before being issued.

Note 22: 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, capped at 15m tonnes, 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.
- A royalty is payable by the subsidiary Continental Coal Limited in South Africa of between Rand 0.15 and Rand 3.00 per tonne of coal sold from the Mashala acquisition producing mines.
- A 5% facilitation fee is payable on the proceeds of the Vanmag Sale

Note 23: 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.

(b) 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:-

31 December 2010	Coal SA	Vanadium & Magnetite SA	Corporate Costs	Consolidated
	$	$	$	$
Total segment revenue	12,391,547	-	591,352	12,982,899
EBITDA	(9,625,646)	-	(18,869,389)	(28,495,035)
Total segment assets	130,246,660	9,910,343	20,893,116	161,050,119
Total segment liabilities	39,715,899	-	11,533,442	51,249,341

	Coal SA	Vanadium & Magnetite SA	Corporate Costs	Consolidated
	$	$	$	$
Total segment revenue – 31 December 2009	3,128	-	527,974	531,102
EBITDA – 31 December 2009	(7,163,350)	-	(6,926,226)	(14,089,570)
Total segment assets as at 30 June 2010	46,922,578	9,758,024	21,750,114	78,430,716
Total segment liabilities as at 30 June 2010	15,820,027	557,754	21,827,763	38,205,544

Note 23: Segment Reporting (cont'd)

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:

	31 December 2010 $	31 December 2009 $
Adjusted EBITDA	(28,495,035)	(14,089,570)
Interest revenue	202,525	12,940
Finance costs	(990,630)	(1,199,867)
Depreciation	(1,521,660)	(37,572)
Loss before income tax from continuing operations	(30,804,800)	(15,327,017)

Note 24: 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;-

- On 27 January 2011 the Company announced that the Kenyan Ministry of Energy had informed Continental that its Expression of Interest (EOI) to participate in coal exploration and development of Kenya's Mui Coal Basin had been accepted.

Note 25: Related Party Transactions

During the period 100,000,000 Directors options exercisable at 7.5 cents on or before 31 December 2013 were issued as approved by shareholders at the Company's Annual General Meeting on 19 November 2010.

Note 26: Share-based Payments

The following share-based transactions occurred during the period;

Quantity	Security	$ Value	Purpose
100,000,000	Unlisted Director Options exercisable at 7.5 cents on or before 31 December 2013	3,544,064	Directors incentive
40,000,000	Unlisted options exercisable at 5 cents on or before 16 July 2016	2,303,076	EDF Trading Coal Supply Agreement
40,000,000	Unlisted options exercisable at 10 cents on or before 16 July 2016	1,985,804	
16,275,486	Unlisted options exercisable at 6.4 cents on or before 31 October 2015	792,688	Part of placement financing

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.

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 14 to 35 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds, on the basis disclosed in Note 1 to the accounts, to believe that Continental Coal Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Peter Landau
Executive Director

Dated this 28th day of February 2011

Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

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

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Continental Coal Limited, which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Continental Coal Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001,* which has been given to the directors of Continental Coal Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Basis for Qualified Conclusion

During the 2009 financial year Continental Coal Limited may have acquired a controlling interest in the shares of Golden Falls Trading 565 (Proprietary) Limited. We have been unable to obtain the financial statements of Golden Falls Trading 565 (Proprietary) Limited nor obtain 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, non-consolidation of Golden Falls Trading 565 (Proprietary) Limited would have on the 31 December 2010 half-year financial report, nor on the comparative information for the half-year ended 31 December 2009.

Qualified Conclusion

Except for the effect, if any, of the qualification included in the preceding paragraph, based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Continental Coal Limited is not in accordance with the Corporations Act 2001 including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of Matter

Without additional qualification to the conclusion expressed above, we draw attention to Note 1 in the half-year financial report which indicates that the consolidated entity has $29,434,118 of current liquid assets and $32,394,885 of current liabilities. 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 Continental Coal Limited'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 statements.

BDO Audit (WA) Pty Ltd

BDO
Glyn O'Brien

Glyn O'Brien
Director

Perth, Western Australia
Dated this 28th day of February 2011