

31 October 2011

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

By e-lodgement

Annual Report and Notice of Annual General Meeting

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

For and on behalf of the Board

Regards



Jason Brewer
Executive Director

Ends

For further information please contact:

Investors/ shareholders

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About Continental Coal Limited

Continental Coal Limited (ASX:CCC : US-OTCQX:CGFAY) is a South African thermal coal producer with a portfolio of producing and advanced coal projects located in South Africa's major coal fields. Continental currently has two operating mines, Vlaskovfontein and Ferreira, producing 2Mtpa of thermal coal for the export and domestic markets. Continental commenced development of the Penumbra Coal Mine in September 2011 and completed a Bankable Feasibility Study on the De Wittekrans Coal Project. The Company has concluded strategic off-take and funding agreements with EDF Trading for its export thermal coal production and signed a joint development agreement with KORES, Korea Resources Corporation.

Forward Looking Statement

Certain statements made during or in connection with this communication, including, without limitation, those concerning the economic outlook for the coal mining industry, expectations regarding coal prices, production, cash costs and other operating results, growth prospects and the outlook of Continental's operations including the likely commencement of commercial operations of the Penumbra and De Wittekrans, its liquidity and the capital resources and expenditure, contain or comprise certain forward-looking statements regarding Company's development and exploration operations, economic performance and financial condition. Although Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct.

Accordingly, results could differ materially from those set out in the forward-looking statements as a result of, among other factors, changes in economic and market conditions, success of business and operating initiatives, changes in the regulatory environment and other government actions, fluctuations in coal prices and exchange rates and business and operational risk management. For a discussion of such factors, refer to the Company's most recent annual report and half year report. The Company undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after today's date or to reflect the occurrence of unanticipated events.

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Executive Chairman Andy Macaulay

CEO Don Turvey

Executive Director Peter Landau

Executive Director Bruce Buthelezi

CONTINENTAL COAL LIMITED

ACN 009 125 651

NOTICE OF ANNUAL GENERAL MEETING

TIME: 2pm (WST)

DATE: 29 November 2011

PLACE: The University Club of Western Australia
Seminar Room 3
Hackett Drive, Crawley WA 6009

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

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on (+61 8) 9488 5220.

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IMPORTANT INFORMATION

TIME AND PLACE OF MEETING

Notice is given that the annual general meeting of the Shareholders to which this Notice of Meeting relates will be held at 2pm (WST) on 29 November 2011 at:

The University Club of Western Australia
Seminar Room 3
Hackett Drive, Crawley WA 6009

YOUR VOTE IS IMPORTANT

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

VOTING ELIGIBILITY

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Annual General Meeting are those who are registered Shareholders at 2pm (WST) (5pm Sydney daylight savings time) on 27 November 2011.

VOTING IN PERSON

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

VOTING BY PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

New sections 250BB and 250BC of the Corporations Act came into effect on 1 August 2011 and apply to voting by proxy on or after that date. Shareholders and their proxies should be aware of these changes to the Corporations Act, as they will apply to this Annual General Meeting. Broadly, the changes mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Further details on these changes is set out below.

Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does**:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
 - the proxy is not recorded as attending the meeting;
 - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

BUSINESS OF THE MEETING

AGENDA

ORDINARY BUSINESS

Financial Statements and Reports

To receive and consider the annual financial report of the Company for the financial year ended 30 June 2010 together with the declaration of the directors, the directors' report, the remuneration report and the auditor's report.

1. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

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

"That, for the purpose of Section 250R(2) of the Corporations Act and for all other purposes, approval is given for the adoption of the Remuneration Report as contained in the Company's annual financial report for the financial year ended 30 June 2011."

Note: the vote on this Resolution is advisory only and does not bind the Directors or the Company.

Voting Prohibition Statement:

A vote on this Resolution must not be cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such a member.

However, a person described above may vote on this Resolution if:

- (c) the person does so as a proxy appointed by writing that specifies how the proxy is to vote on the Resolution; and
- (d) the vote is not cast on behalf of a person described in sub-paragraphs (a) or (b) above.

2. RESOLUTION 2 – RE-ELECTION OF DIRECTOR – MR LODEWYK TURVEY

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

"That, for the purpose of clause 13.4 of the Constitution and for all other purposes, Mr Lodewyk Turvey, a Director who was appointed on 9 March 2011, retires, and being eligible, is re-elected as a Director."

3. RESOLUTION 3 – RE-ELECTION OF DIRECTOR – MR JASON BREWER

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

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

DATED: 27 OCTOBER 2011

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to read 'J Flegg', with a long horizontal flourish extending to the right.

**JANE FLEGG
COMPANY SECRETARY**

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions which are the subject of the business of the Meeting.

1. FINANCIAL STATEMENTS AND REPORTS

In accordance with the Constitution, the business of the Meeting will include receipt and consideration of the annual financial report of the Company for the financial year ended 30 June 2011 together with the declaration of the directors, the directors' report, the remuneration report and the auditor's report.

The Company will not provide a hard copy of the Company's annual financial report to Shareholders unless specifically requested to do so. The Company's annual financial report is available on its website at www.conticoal.com.

2. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

2.1 General

The Corporations Act requires that at a listed company's annual general meeting, a resolution that the remuneration report be adopted must be put to the shareholders. However, such a resolution is advisory only and does not bind the Directors or the Company.

Under recent changes to the Corporations Act which came into effect on 1 July 2011, if at least 25% of the votes cast on Resolution 1 are voted against adoption of the Remuneration Report at the Annual General Meeting, and then again at the Company's 2012 annual general meeting, the Company will be required to put to Shareholders a resolution proposing the calling of an extraordinary general meeting to consider the appointment of directors of the Company (**Spill Resolution**).

If more than 50% of Shareholders vote in favour of the Spill Resolution, the Company must convene the extraordinary general meeting (**Spill Meeting**) within 90 days of the Company's 2012 annual general meeting. All of the Directors who were in office when the Company's 2012 Directors' report was approved, other than the managing director of the Company, will cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting. Following the Spill Meeting those persons whose election or re-election as Directors is approved will be the Directors of the Company.

The remuneration report sets out the Company's remuneration arrangements for the Directors and senior management of the Company. The remuneration report is part of the Directors' report contained in the annual financial report of the Company for the financial year ending 30 June 2011.

A reasonable opportunity will be provided for discussion of the remuneration report at the Annual General Meeting.

2.2 Proxy Restrictions

Pursuant to the Corporations Act, if you elect to appoint the Chair, or another member of Key Management Personnel whose remuneration details are included in the Remuneration Report or any Closely Related Party of that member as your proxy to vote on this Resolution 1, *you must direct the proxy how they are to vote*. Where you do not direct the Chair, or another member of Key Management Personnel whose remuneration details are included in the Remuneration Report or Closely Related Party of that member on how to vote on this Resolution 1, the proxy is prevented by the Corporations Act from exercising your vote and your vote will not be counted in relation to this Resolution 1.

3. RESOLUTION 2– RE-ELECTION OF DIRECTOR –MR LODEWYK TURVEY

Clause 13.4 of the Constitution allows the Directors to appoint at any time a person to be a Director as an addition to the existing Directors, but only where the total number of Directors does not at any time exceed the maximum number specified by the Constitution.

Any Director so appointed holds office only until the next following annual general meeting and is then eligible for re-election.

Mr Lodewyk Turvey will retire in accordance with clause 13.4 of the Constitution and being eligible seeks re-election.

4. RESOLUTION 4 – RE-ELECTION OF DIRECTOR – MR JASON BREWER

Clause 13.2 of the Constitution requires that at the Company's annual general meeting in every year, one-third of the Directors for the time being, or, if their number is not a multiple of 3, then the number nearest one-third (rounded upwards in case of doubt), shall retire from office, provided always that no Director (except a Managing Director) shall hold office for a period in excess of 3 years, or until the third annual general meeting following his or her appointment, whichever is the longer, without submitting himself or herself for re-election.

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

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

Mr Brewer, the Director longest in office since his last election, retires by rotation and seeks re-election.

GLOSSARY

\$ means Australian dollars.

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

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited.

ASX Listing Rules means the Listing Rules of ASX.

Board means the current board of directors of the Company.

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

Closely Related Party of a member of the Key Management Personnel means:

- (a) a spouse or child of the member;
- (b) a child of the member's spouse;
- (c) a dependent of the member or the member's spouse;
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
- (e) a company the member controls; or
- (f) a person prescribed by the *Corporations Regulations 2001 (Cth)*.

Company means Continental Coal Limited (ACN 009 125 651).

Constitution means the Company's constitution.

Corporations Act means the Corporations Act 2001 (Cth).

Directors means the current directors of the Company.

Explanatory Statement means the explanatory statement accompanying the Notice.

Key Management Personnel has the same meaning as in the accounting standards and broadly includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company.

Notice or **Notice of Meeting** or **Notice of Annual General Meeting** means this notice of annual general meeting including the Explanatory Statement and the Proxy Form.

Proxy Form means the proxy form accompanying the Notice.

Remuneration Report means the remuneration report set out in the Director's report section of the Company's annual financial report for the year ended 30 June 2011.

Resolutions means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

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

Shareholder means a holder of a Share.

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

PROXY FORM

**APPOINTMENT OF PROXY
CONTINENTAL COAL LIMITED
ACN 009 125 651**

ANNUAL GENERAL MEETING

I/We

of

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

Appoint

Name of proxy

OR

the Chair of the Annual General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair of the Annual General Meeting, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, and subject to the relevant laws as the proxy sees fit, at the Annual General Meeting to be held at 2pm (WST), on 29 November 2011 at The University Club of Western Australia, Seminar Room 3, Hackett Drive, Crawley WA 6009, and at any adjournment thereof.

Comment

Important for Resolution 1: If the Chair of the Meeting or any member of the Key Management Personnel of the Company whose remuneration details are included in the Remuneration Report or a Closely Related Party of that member is your proxy and you have not directed the proxy to vote on Resolution 1, the proxy will be prevented from casting your votes on Resolution 1. If the Chair, another member of the Key Management Personnel of the Company whose remuneration details are included in the Remuneration Report or Closely Related Party of that member is your proxy, in order for your votes to be counted on Resolution 1, you must direct your proxy how to vote on Resolution 1.

OR

Voting on Business of the Annual General Meeting

Resolution 1 – Adoption of Remuneration Report
Resolution 2 – Re-election of Director – Mr Lodewyk Turvey
Resolution 3 – Re-election of Director – Mr Jason Brewer

| FOR | AGAINST | ABSTAIN |
|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

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

If two proxies are being appointed, the proportion of voting rights this proxy represents is _____ %

Signature of Member(s):

Date:

Individual or Member 1

Member 2

Member 3

**Sole
Secretary**

Director/Company

Director

Director/Company Secretary

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

CONTINENTAL COAL LIMITED
ACN 009 125 651

Instructions for Completing 'Appointment of Proxy' Form

1. **(Appointing a Proxy):** A member entitled to attend and vote at an Annual General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.
2. **(Direction to Vote):** A member may direct a proxy how to vote by marking one of the boxes opposite each item of business. Where a box is not marked the proxy may vote as they choose. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing Instructions):**
 - **(Individual):** Where the holding is in one name, the member must sign.
 - **(Joint Holding):** Where the holding is in more than one name, all of the members should sign.
 - **(Power of Attorney):** If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
 - **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual members from attending the Annual General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the Annual General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the Annual General Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
 - (a) post to Continental Coal Limited, Ground Floor, 1 Havelock Street, West Perth WA 6005; or
 - (b) facsimile to the Company on facsimile number +61 8 9324 2400,so that it is received not less than 48 hours prior to commencement of the Meeting.

Proxy forms received later than this time will be invalid.



Continental **Coal Ltd**

ANNUAL REPORT

for the year ended 30 June 2011

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CORPORATE DIRECTORY

Directors

Andrew MACAULAY
(Executive Chairman)

Jason BREWER
(Executive Director)

Don TURVEY – appointed 9 March 2011
(Executive Director)

Peter LANDAU
(Executive Director)

James LEAHY – appointed 27 May 2011
(Non-Executive Director)

Bruce BUTHELEZI – resigned 19 September 2011
(Executive Director)

Manuel LAMBOLEY – resigned 27 May 2011
(Non-Executive Director)

Company Secretary

Anthony EASTMAN
(Joint Company Secretary)

Jane FLEGG
(Joint Company Secretary)

Registered Office

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West Perth
Western Australia 6005
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Facsimile: +61 8 9324 2400

Principal Place of Business

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Sandton, South Africa 2196
Telephone: +27 11 881 1420
Facsimile: +27 11 881 1423
Email: admin@conticoal.com
Website: www.conticoal.com

Country of Incorporation

Australia

Auditors

BDO Audit (WA) Pty Ltd
38 Station Street
SUBIACO WA 6008
Telephone: (08) 6382 4600
Facsimile: (08) 6382 6401

Share Registry

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

Home Exchange

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

ASX Code: CCC

AIM Code: COOL

OTCQX Code: CGFAY

EXECUTIVE DIRECTOR'S REPORT

Dear Shareholder,

On behalf of the Board of Directors of Continental Coal Limited I am pleased to report on the Company's activities during the 2010/2011 financial year.

The main focus of the past year was the acquisition and the integration of Mashala Resources into Continental Coal South Africa and bringing both our mining operations into full production and sustainably profitable levels. I am pleased to report that we managed to increase production and export and domestic sales quarter on quarter and are generating positive cash flow from both operations with the capability to cover the general overhead costs of the Company.

The Company was successful in finalising the outstanding payments on its interest in Vlakvarkfontein, Vaalbank, Project X and has moved to increase its stake in Mashala Resources with the planned acquisition of the outstanding minority interests. In addition the Company completed a strategic transaction with Korean Resources Corporation on the Vlakplaats coal project and cemented its relationship with EDF Trading with the execution of a Coal Supply Agreement and related financing.

The project portfolio of the Company was enhanced by the advanced stage projects of Mashala Resources. During the year under review and subsequent to the year end the Company managed to commence construction of its third mine at Penumbra with first production expected in Q2 of 2012. The feasibility study of the fourth mine, De Wittekrans, was completed and is being reviewed for an investment decision expected in Q4 2011. Exploration activities in Botswana for the two phase 60 hole drilling also commenced in September 2011. Exploration and project studies are also planned in the coming year for the Vlakplaats, Vaalbank and Leiden coal projects while maintaining the exploration commitments on our other projects in our portfolio.

I am pleased to report that the company managed to secure a committed debt funding package of up to US\$65 million from ABSA Capital with documentation and satisfaction of the conditions precedent moving towards finalisation. In addition the Company entered into a new Broad Based Black Economic Empowerment deal with Sishen Iron Ore Company community development trust (SIOC-cdt). SIOC-cdt will inject US\$20 million into the business and replace Masawu as Continental Coal South Africa's new BEE partner satisfying the Department of Minerals Resources target of 26% black ownership by 2014.

A key milestone for the company was the publishing of its maiden Reserve statement and an updated Resource statement and Competent Person Report ahead of the Company's secondary listing on the AIM market in London during September 2011. The Board is convinced, despite the current economic climate, that the AIM listing will enhance our institutional shareholder base and provide greater market awareness to the progress the Company is making with its coal mining activities in South Africa.

During the year the Company strengthened its executive management with the appointment of several key executive appointments as the Company transitioned towards an established coal producer in South Africa. The Board also appointed James Leahy as Non-Executive Director based in London.

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

DON TURVEY
Chief Executive Officer

DIRECTOR'S REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the "Group") consisting of Continental Coal Limited and the entities it controlled at the end of, or during, the year ended 30 June 2011.

Directors

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

| | |
|--------------------|----------------------------|
| Mr Andrew Macaulay | |
| Mr Jason Brewer | |
| Mr Don Turvey | appointed 9 March 2011 |
| Mr Peter Landau | |
| Mr James Leahy | appointed 27 May 2011 |
| Mr Bruce Buthelezi | resigned 19 September 2011 |
| Mr Manuel Lambole | resigned 27 May 2011 |

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

Company Secretary

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

Mr Anthony Eastman
Ms Jane Flegg

Principal Activities

The principal activity of the Group during the financial year was investment in the mining resource industry. During the year the Group focused on investing in highly prospective coal resources in South Africa making significant progress and success with its aggressive growth strategy.

Operating Results

The consolidated loss of the Group for the financial year after providing for income tax amounted to \$41,849,645 (2010: \$27,461,478).

It is important to note that the Group's mining operations were cashflow positive with the operating loss result being attributable to start up financing costs, impairment and share based payment expenses which are considered by the Board to be one off transactions as the Company's production activities commenced. Moving forward the Company has established significant operating cashflows from its operations and, with all key items expensed this financial year, the Board believes that the platform has now been established for accelerated performance over the coming years.

Dividends Paid or Recommended

The directors recommend that no dividend be paid for the year ended 30 June 2011, nor have any amounts been paid or declared by way of dividend since the end of the previous financial year.

Review of Operations

The 2010/11 financial year was a year in which the Group made significant progress and success with its growth strategy of building a major mid-tier Southern African focused coal mining business. Key achievements during the financial year included:

- First full 12 months of thermal coal production from the Vlakvarkfontein Coal Mine.
- Acquisition of an initial 64% interest in unlisted South African thermal coal mining and export coal producing company Mashala Resources (Pty) Limited.
- First export thermal coal shipments from the Richards Bay Coal Terminal commenced under a thermal coal off-take agreement with EDF Trading.
- Successive quarterly increases and record quarterly run-of-mine thermal coal production levels achieved at the Ferreira and Vlakvarkfontein Coal Mines.
- Successive quarterly increases and record quarterly sales of export thermal coal from the Ferreira Coal Mine and Delta Processing Operations.
- Initial JORC compliant coal reserves of 63.5Mt at the Ferreira and Vlakvarkfontein Coal Mines and the Penumbra and De Wittekrans Coal Projects.
- Total JORC compliant measured coal resources at the Company's next two proposed mine developments, the Penumbra and De Wittekrans Coal Projects increased by 63% and 182% respectively.
- Portfolio of producing, pre-development and exploration projects increased substantially over the year with the Company now holding interests in two producing coal mines and eleven pre-production and exploration projects, up from interests in five projects in the 2009/10 financial year.
- Exploration and drilling program finalised for the Company's interests in two early stage and strategically located Botswana Coal Projects.
- Joint venture agreement finalised with Korea Resources Corporation to fast track a bankable feasibility study on the Vlakplaats Coal Project.
- Executive management team and Board strengthened with the appointment of several senior mining executives in South Africa as well the appointment of a highly experienced London based non-executive director.
- Agreement reached with a highly respected and well established Broad Based Black Economic Empowerment Group to acquire the existing 26% BEE interest in the Company's South African subsidiary, and repay approx. US\$20m of intercompany loans.
- Thermal coal off-take agreement and associated US\$20m debt funding agreement executed with EDF Trading, a leader in the international wholesale energy markets. US\$15m was drawn during the financial year.
- Repayment and conversion of A\$19.8m of secured and unsecured debt completed during the year.
- Shareholders indicated strong support for the Company's business strategy in South Africa through subscription of a heavily oversubscribed Share Purchase Plan that raised A\$16m.
- A\$16m of convertible debt raised with institutions in Hong Kong and London and A\$52m raised via private placements to select sophisticated, institutional and professional investors in Australia, Europe and Asia
- Credit approval for US\$65 million in funding from ABSA Capital for the development of the Penumbra Coal Project.
- Listing completed in the United States on the OTCQX International under the symbol **CGFAY**.
- Listing completed on London Stock Exchange's AIM Market under the symbol **COOL**.

DIRECTOR'S REPORT

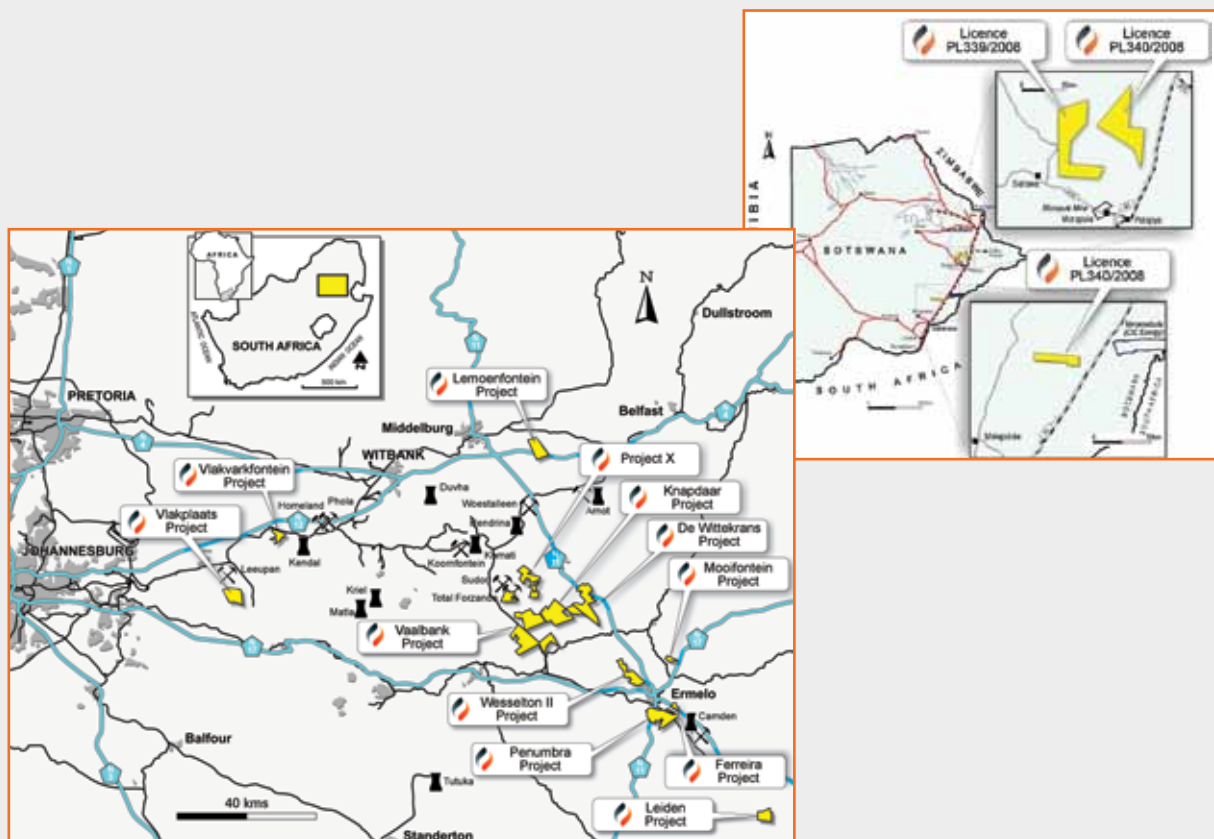
Acquisitions

During the financial year the Group continued to aggressively advance its South African focused coal business with the completion of a number of further key acquisitions:

- On 25 August 2010 the Group's South African subsidiary, paid ZAR40m (A\$6.1m) in respect to the outstanding purchase consideration for its 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.
- 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 ZAR256m (A\$35m) acquisition of Mashala took place. In accordance with the terms of Share Sale Agreements executed on 15 September 2010, the Company's South African subsidiary acquired an initial 64.1% shareholding in Mashala.
- On 12 March 2011 the Group's South African subsidiary, paid ZAR25m (AUD\$3.6m) in respect to the outstanding purchase consideration for its additional 25% and 20% shareholding in the Vaalbank and Project X Coal Projects.

The acquisitions are considered key to the Company's strategy of building a major mid-tier Southern African focused thermal coal mining business.

Location of Operations



Reserves and Resources

During the financial year the Group's South African subsidiary increased the Reserves and Resources at the various thermal coal mines and projects that it manages in South Africa.

The updated Reserves and Resources reports for the projects were completed by independent geological consultants, Gemecs (Pty) Limited, Ukwazi Mining and CCIC Coal (Pty) Ltd.

Coal Reserves (January 2011)

| Project | Saleable Reserves (Mt) | | | Sold 31 Jan to 30 June | Total saleable reserves ¹ |
|-------------------------|------------------------|----------|-------|------------------------|--------------------------------------|
| | Proven | Probable | Total | | |
| Vlakovarkfontein | 14.1 | - | 14.1 | 0.40 | 13.70 |
| Ferreira | 0.82 | - | 0.82 | 0.23 | 0.59 |
| Penumbra | 1.71 | 3.73 | 5.44 | - | 5.44 |
| De Wittekrans | 16.15 | 27.62 | 43.77 | - | 43.77 |
| TOTAL | 32.78 | 31.35 | 64.13 | 0.63 | 63.50 |

¹ As at 1 June 2011

Coal Resources (January 2011)

| Project | Gross In Situ Project Resources Tonnes (Mt) | | | |
|-------------------------|---------------------------------------------|--------------|--------------|--------------|
| | Measured | Indicated | Inferred | TOTAL |
| Vlakovarkfontein | 17.4 | - | - | 17.4 |
| Ferreira | 1.3 | - | - | 1.3 |
| Penumbra | 13.0 | 30.3 | 25.0 | 68.3 |
| De Wittekrans | 33.8 | 64.4 | 68.9 | 167.1 |
| Knapdaar | | | 46.7 | 46.7 |
| Project – X | 14.6 | - | - | 14.6 |
| Vaalbank | - | 8.8 | 13.9 | 22.7 |
| Vlakplaats | - | - | 187.7 | 187.7 |
| Leiden | 4.5 | 2.0 | 12.0 | 18.5 |
| Mooifontein | | - | 3.1 | 3.1 |
| Wesselton II | 4.2 | 5.1 | 8.7 | 18.0 |
| TOTAL | 88.8 | 110.6 | 366.0 | 565.4 |

DIRECTOR'S REPORT

Health and Safety

The Group's South African subsidiary has been successful in maintaining a strong health and safety record at its South African operations. Providing a safe working environment for all its employees is central to the Group's ongoing performance targets. Building a culture of safety awareness is key to the continuous improvements that are being achieved at all of the Group's operations in South Africa.

Ferreira Coal Mine and Delta Processing Operations

The Group's South African subsidiary assumed operational control of the Ferreira Coal Mine and Delta Processing Operations on 1 November 2010 following its acquisition of a majority interest in Mashala.



Mining in the New Northern Pit at the Ferreira Coal Mine

The Ferreira Coal Mine is a conventional opencast operation that commenced production in August 2008.

During the year run-of-mine ("ROM") coal production at the Ferreira Coal Mine of 376,993t was achieved. Although the majority of the coal currently mined is from the C-Lower Seam which averages 1.65m in thickness, a small amount of coal is also exploited from the C-Upper and B-Lower Seams which average 0.66m and 0.77m in thickness respectively.

Ferreira Production Performance (tonnes unless stated)

| | Sep 10 Qtr | Dec 10 Qtr | Mar 11 Qtr | Jun 11 Qtr | FY2010/11 ¹ |
|------------------------------|------------|---------------|----------------|------------------|------------------------|
| Overburden (m ³) | - | 493,207 | 931,121 | 1,373,810 | 2,798,138 |
| Total Softs | - | 26,437 | 931,121 | 1,373,810 | 2,798,138 |
| B Lower Coal | - | 26,437 | 40,150 | 56,481 | 123,068 |
| C Upper Coal | - | 14,768 | 18,363 | 25,268 | 58,399 |
| C Lower Coal | - | 29,989 | 69,719 | 95,798 | 195,506 |
| Total ROM Coal | - | 71,194 | 128,232 | 177,547 | 376,973 |
| Summary | | | | | |
| Overburden (m ³) | - | 493,207 | 931,121 | 1,373,810 | 2,798,138 |
| ROM Coal | - | 71,194 | 128,232 | 177,547 | 376,973 |

¹ From 1 November 2010

Since acquiring the Ferreira Coal Mine the Group's South African subsidiary has continued to achieve improvements in its operational performance at the Ferreira Coal Mine.

The opencast ROM production at the Ferreira Coal Mine is treated at the Delta Processing Operations, located approximately 3.5km from the opencast operations, which are operated and maintained by Frazer Alexander.



The Delta Processing Plant



Crushing and Screening Operations at Delta

During the year the coal processing plant at the Delta Processing Operations washed a total of 594,640t. Feed to the coal processing plant increased quarter on quarter throughout the financial year. The plant feed tonnes comprised both ROM production from the Ferreira Coal Mine and coal purchased from nearby operations, which is blended with the Group's South African subsidiary's own production of ROM coal.

The Delta Processing Operations achieved production of 278,353t of a primary export thermal coal product during the financial year.

During the financial year the Group's South African subsidiary railed to RBCT a total of 330,887t of export thermal coal from its Anthra Rail siding located adjacent to the coal processing plant at the Delta Processing Operations.

Vlakovarkfontein Coal Mine

Development of the Vlakovarkfontein Coal Mine Project commenced in February 2010 and the first coal production blast took place on 27 May 2010.

The Vlakovarkfontein Coal Mine hosts a significant coal deposit within an area of approximately 850.1ha. Mining is conducted by conventional opencast mining methods. Trollope Mining Services, the contract miner, supplies and operates all of the mining machinery.



Open pit mining activities and WCC's crushing and screening plant fully operational at Vlakovarkfontein

DIRECTOR'S REPORT

During the first quarter of the financial year the Group's South African subsidiary appointed W-Carriers Contracting under a 3 year contract to conduct crushing, screening and stockpiling of the run-of-mine coal to produce a -50mm coal product that will be sold free on truck and at mine gate.

During the year ROM production at the Vlakvarkfontein Coal Mine of 894,958t was achieved. Coal was mined primarily from the No. 4 seam which continued throughout the financial year. Mining of the No. 2 seam commenced in August 2010 and increased significantly over the financial year.

Vlakvarkfontein Production Performance (tonnes unless stated)

| | Sep 10 Qtr | Dec 10 Qtr | Mar 11 Qtr | Jun 11 Qtr | FY2010/11 |
|--------------------|----------------|----------------|----------------|----------------|------------------|
| Top-Soil (M3) | 67,981 | 6,229 | - | - | 74,210 |
| Sub-Soil (M 3) | 83,403 | 68,792 | 142,878 | 71,260 | 366,333 |
| Total Softs | 151,384 | 75,021 | 142,878 | 71,260 | 440,543 |
| Overburden | 391,257 | 352,565 | 181,892 | 436,256 | 1,361,970 |
| Interburden | 74,142 | 76,701 | 97,286 | 181,717 | 429,846 |
| Total Hards | 465,399 | 429,266 | 279,178 | 617,973 | 1,791,816 |
| 4 Seam Coal | 150,971 | 144,923 | 159,420 | 165,446 | 620,760 |
| 2 Seam Coal | 14,231 | 59,855 | 31,148 | 168,964 | 274,198 |
| Total Coal | 165,202 | 204,778 | 190,568 | 334,410 | 894,958 |
| Summary | | | | | |
| Total Softs | 151,384 | 75,021 | 142,878 | 71,260 | 440,543 |
| Total Hards | 465,399 | 429,265 | 279,178 | 617,973 | 1,791,816 |
| Total Coal | 165,202 | 204,778 | 190,568 | 334,410 | 894,958 |

ROM stockpile levels at the Vlakvarkfontein Coal mine increased over the financial year with a closing stockpile balance of 203,144 tonnes as at 30 June 2011.

Penumbra Coal Project

The development activities for the construction of the Penumbra Coal Project commenced in September 2011 under the management of the Group's experienced Owners Team and TWP Projects, as the appointed EPCM contractor for the Penumbra Coal Project. The principal earth works contractor, Leomat (Pty) Limited commenced civil and construction works on site on 7 September 2011 with the initial ground breaking taking place in the proposed box-cut area.



Development activities progressing at the Penumbra Coal Project

Run-of-mine production from the Penumbra Coal Project is forecast to increase to the targeted annual rate of 750,000t in Q3 2012.

The run-of-mine coal produced at Penumbra will be beneficiated through the existing Delta Processing Operations which comprises a 300tph coal processing plant and the 1.2Mtpa Anthra Rail Siding. Production of 500,000tpa of a primary export thermal coal product is forecasted. The export thermal coal product will be railed through to RBCT under existing rail contracts and sold to EDF Trading and other export off-take agreements.

De Wittekrans Coal Project

The De Wittekrans Coal Project is within the Group's South African subsidiary's De Wittekrans Complex which also includes the Vaalbank, Knapdaar and Project X coal projects.

The Group's South African subsidiary assumed its majority interest in the De Wittekrans Coal Project on 1 November 2010 following its acquisition of a majority interest in Mashala.

In August 2011 the Group announced JORC compliant saleable coal reserves for the De Wittekrans Coal Project of 43.8Mt with 16.2 Mt of proven reserves and 27.6 Mt of possible coal reserves. Approx. 27% of the total saleable reserves at the De Wittekrans Coal project are to be mined from the proposed open cast operation with 73% to be mined from the proposed underground mine development.

The Bankable Feasibility Study on the De Wittekrans Coal Project was completed in September 2011 by independent mining consultants TWP Projects.

Production is planned to commence from the opencast areas of the De Wittekrans Coal Project in 2012/13, which will subsequently be replaced by the proposed underground mining operations. Underground production will commence in year 3, rising to steady state in year 8 when opencast mining is scheduled to cease.

Vlakplaats Coal Project

During the financial year the Group's South African subsidiary executed Joint Development and Shareholders Agreements with the Korean government's minerals exploration and mining company Korea Resources Corporation ("KORES") for the acquisition of the Vlakplaats Coal Project enabling the project to be fast tracked towards development.

The Group's South African subsidiary has a 50% interest in the project. Under the terms of the Joint Development and Shareholders Agreement the parties have established a Special Purpose Vehicle to advance the Vlakplaats Coal Project through to completion of a Bankable Feasibility Study.

DIRECTOR'S REPORT

The Group believes that the Joint Development Agreement with KORES on the Vlakplaats Coal Project is of particular strategic importance given it is KORES' first investment in South Africa's coal sector and follows substantial investment by KORES in coal projects worldwide, including interests in 10 coal mines in Australia producing in excess of 25Mtpa. During the financial year the Group reported a 54% increase in total inferred resources for the Vlakplaats Coal Project, to 187.7Mt up from the previous 122Mt, that has further confirmed the strategic importance of the asset to the Group.

Exploration

Botswana

During the financial year the Group secured a majority interest in three prospecting licenses (PL 339/2008, PL 340/2008 collectively referred to as the Serowe Project and PL 341/2008 referred to as the Kweneng Project) covering an area of 964km² in Botswana.

In September 2011 the Group commenced a 60 hole and 9,000m drilling program at the Serowe Project that is scheduled to be completed by mid-December 2011.

As announced on 29 September 2011 the combined Exploration Target across the Projects, as determined by the Group's geological consultants Gemecs, is between 6-7 Bt of thermal coal

| Prospecting License | Exploration Target ¹ (In Situ Million Tonnes) | | Sub-Total |
|---------------------|----------------------------------------------------------|-------------------|-----------|
| | Shallow-Moderate Depth | Substantial Depth | |
| Serowe Project | 1,950 | 2,750 | 4,700 |
| Kweneng Project | 700 | 1,150 | 1,850 |
| Total Projects | 2,650 | 3,900 | 6,550 |

¹ 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.

Financial Position

The net assets of the Group have increased by \$65,682,248 from \$40,225,172 at 30 June 2010 to \$105,907,420 in 2011. This increase has largely resulted from the following factors:

- Strategic coal project acquisition of Mashala;
- Coal Production at Vlakvarkfontein Coal Mine and Ferreira Coal Mine;
- Exploration and development activities at De Wittekrans and Knapdaar Coal Projects in South Africa;
- Exploration programme commencement in Botswana; and
- Commencement of construction at Penumbra Coal Mine.

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

Significant Changes in State of Affairs

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

An increase in contributed equity of \$89,238,775 (from \$100,829,337 to \$190,068,112) as a result of:

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Placement issue of 400,000,000 ordinary fully paid shares at 5.5 cents each | 22,000,000 |
| Share Purchase Plan Issue of 290,909,090 ordinary fully paid shares at 5.5 cents each | 16,000,000 |
| Placement issue of 475,950,000 ordinary fully paid shares at 6.4 cents each | 30,460,800 |
| Conversion of Debt by issue of 77,090,996 ordinary fully paid shares at 5.5 cents each and 110,789,171 ordinary fully paid shares at 5.25 cents each | 9,857,119 |
| In lieu of introduction and capital raising fees by issue of 92,213,796 ordinary fully paid shares at an average of 5.77 cents each | 5,323,123 |
| Issue of 11,868,125 ordinary fully paid shares to consultants at 6.4 cents each in consideration for services provided to the Group | 759,560 |
| Issue of 60,000,000 ordinary fully paid shares as facilitation fees for coal project funding at 5.8 cents each | 3,500,000 |
| Conversion of \$11.35m debt facility by issue of 227,000,000 shares at 5 cents each | 11,350,000 |
| Conversion of \$4.8m convertible note by issue of 60,000,000 shares at 8 cents each | 4,800,000 |
| Issue of 294,056 ordinary fully paid shares by exercise of options at 5 cents | 14,702 |
| Less share issue costs | (14,826,529) |
| | <u>\$89,238,775</u> |

Matters Subsequent to the End of the Financial Year

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

- Successful completion of tranche 1 of a placement to Socius CG 11 of 234,962,406 new shares at an issue price of A\$0.043 per share to raise US\$10 million (before issue costs). The placement was completed at a premium of 12% to the closing price on 30 June 2011. In addition the Group has issued Socius with 117,481,203 unlisted 5 year warrant options.
- Successful completion of tranche 2 of a placement to Socius CG 11 of 279,017,857 new shares at an issue price of A\$0.03584 per share to raise US\$10 million (before issue costs). The placement was completed at a premium of 12% to the closing price on 18 August 2011. In addition the Group has issued Socius with 139,508,928 unlisted 5 year warrant options.
- Payment of AU\$5.4m to minorities of Mashala Resources (Pty) Limited to increase the Group's South African Subsidiary shareholding from 64.1% to 73.3%.
- Share Consolidation of every ten (10) shares consolidated into one (1) share and every ten (10) options consolidated into one (1) option as approved by shareholders on 29 June 2011 completed on 9 September 2011.
- Admission of the Group's ordinary shares to trade on the London Stock Exchange's AIM Market on 19 September 2011 (**AIM Code :COOL**).

DIRECTOR'S REPORT

- Credit approval for US\$65M in funding from ABSA Capital for Penumbra mine development was obtained on 14th September 2011.
- 10,000,000 unlisted \$0.075 options were issued to director, James Leahy on 1 July 2011. The fair value of these options on grant date was \$0.038 per option.

Future Developments, Prospects and Business Strategies

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

- (i) The Group has commenced construction of its third coal mine (Penumbra), completing a Bank Feasibility Study on the De Wittekrans Coal Project, and will continue exploration and development on its other existing coal assets;
- (ii) The Group will continue to expand its coal interests in South Africa and develop these investments to production through its South African subsidiary Continental Coal Ltd; and
- (iii) The Group will diversify its portfolio into other African countries. To date it has commenced an exploration program in Botswana.

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

Environmental Regulations

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

Information on Directors

| | | | |
|---------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------------------|
| Mr Jason Brewer | Executive Director | | |
| Qualifications | M.Eng (Hons), ARSM, LLB | | |
| Experience | Mr Brewer has over 18 years international experience in the natural resources sector and in investment banking. He is a mining engineer with a master's degree in mining engineering with honours from the Royal School of Mines, London. He has experience in gold and basemetals mines, having worked at the Kidd Creek Copper and Zinc mine in Canada for Falconbridge, the Lanfranchi Nickel Mine in Western Australia for WMC and the Kinross Gold Mine in South Africa for Glencore. | | |
| Interest in shares and options | Scooby Holdings Pty Ltd, a company which Mr Brewer is a director, holds 1,200,000 ordinary fully paid shares and 50,000,000 unlisted director options (7.5 cents, 31 Dec 2013) in the Group | | |
| Directorships held in other listed entities | De Grey Mining Limited | From: | 3 December 2010 |
| | Uran Limited | From: | 30 August 2011 |
| | Zambezi Resources Limited | From: | 3 August 2009 |
| | | To: | 14 September 2009 |
| | Altona Mining Limited | From: | 2 October 2007 |
| | | To: | 28 September 2011 |
| Mr Don Turvey | Executive Director – (appointed 9 March 2011) | | |
| Qualifications | BSc Mining Engineering, Masters in Business Leadership, Mine Managers Certificate of Competence | | |
| Experience | Mr Turvey is a mining executive, with more than 27 years experience in the coal industry. His career includes senior management roles in production, project execution, business development, minerals resource management mainly with BHP Billiton. He spent most of his time in SA with exposure in countries like Australia, North America and Indonesia. He is past President and member of the SA Colliery Managers Association, member of the SA Institute for Mining and Metallurgy and member of the University of Pretoria Mining Advisory Committee. | | |
| Interest in shares and options | Mr Turvey holds no shares or options in the Group. | | |
| Directorships held in other listed entities | During the past three years, Mr Turvey has not served as a director of any other companies listed on the Australian Stock Exchange. | | |
| Mr Andrew Macaulay | Executive Chairman | | |
| Qualifications | B.Sc | | |
| Experience | Mr Macaulay has been involved in the African oil & gas and natural resource sector since the 1980's. He was previously an executive with HSBC Bank. He is a founding director of Continental Coal Ltd (SA). | | |
| Interest in shares and options | Mr Macaulay holds no shares or options in the Group. | | |
| Directorships held in other listed entities | During the past three years, Mr Macaulay has not served as a director of any other companies listed on the Australian Stock Exchange. | | |

DIRECTOR'S REPORT

Information on Directors (cont'd)

| | |
|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mr Peter Landau | Executive Director |
| Qualifications | Bachelor of Law, Bachelor of Commerce. |
| Experience | Mr Landau is a corporate lawyer and corporate advisor, providing general corporate, capital raising, transaction and strategic advice to numerous ASX listed and unlisted companies. Over the last 15 years Mr Landau has project managed a significant number of mining exploration and development transactions around the world including capital raisings, M & A, joint ventures and financings. Mr Landau is a director of a number of ASX listed companies with particular focus on mining resource and oil and gas exploration and development on the African Continent. |
| Interest in shares and options | Doull Consolidated Pty Ltd, a company which Mr Landau is a director, holds 50,000,000 unlisted director options (7.5 cents, 31 Dec 2013) in the Group |
| Special Responsibilities | Mr Landau is Chairman of the Continental Coal Audit Committee. |
| Directorships held in other listed entities | Range Resources Limited From: 8 November 2005 |
| | Nkwe Platinum Limited From: 14 September 2006 |
| | Black Mountain Resources Limited From: 23 August 2011 |
| Mr James Leahy | Non-Executive Director – (appointed 27 May 2011) |
| Qualifications | Investment Advisor – Financial Services Authority London (FSA CF30) |
| Experience | Mr Leahy has more than 26 year's experience in the mining sector as a senior mining analyst and as a specialist corporate broker with expertise in international institutional and hedge funds, foreign capital and private equity markets. As a founding partner of the natural resources team at Mirabaud Securities, one of the leading UK based stockbroking firms, offering specialised and quality stockbroking to corporate and institutional clients, Mr Leahy has advised a number of natural resource focused funds in the UK, raised more than US\$2 billion in equity for resource companies and participated in over 30 IPO's. |
| Interest in shares and options | Mr Leahy holds 750,000 ordinary fully paid shares and 10,000,000 unlisted director options (7.5 cents, 31 Dec 2013) in the Group |
| Directorships held in other listed entities | During the past three years, Mr Leahy has not served as a director of any other companies listed on the Australian Stock Exchange. |
| Mr Bruce Buthelezi | Executive Director – (resigned 19 September 2011) |
| Qualifications | Dip. Industrial Engineering |
| Experience | Mr Buthelezi has held senior management positions in the oil & gas and financial services sectors. He was strategic advisor to TSX listed coal junior, Homeland Energy Group with coal operations in South Africa. He is a founding director of Continental Coal Ltd (SA). |
| Interest in shares and options | Mr Buthelezi holds no shares or options in the Group. |
| Directorships held in other listed entities | During the past three years, Mr Buthelezi has not served as a director of any other companies listed on the Australian Stock Exchange. |

DIRECTOR'S REPORT

Information on Directors (cont'd)

| | |
|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mr Manuel Lamboley | Non Executive Director – (resigned 27 May 2011) |
| Qualifications | Registered as a qualified stock/commodity broker (serie 3 and 7) |
| Experience | Mr Lamboley has extensive knowledge of the investment banking industry and long standing relationships with major investors and financial advisors worldwide. During 20 years of experience with investment banking firms in the US and Europe, Mr Lamboley was a director of UBS AG, head of the Geneva office of Williams de Broe, as well as holding senior positions at Bank Julius Bar, Kidder Peabody, Paine Webber International and Prudential-Bache Securities. He was founder of Eastern Capital Fund and Ocean Finance. He is a non-executive director of UK based African Aura Resources Limited. |
| Interest in shares and options | Mr Lamboley holds no shares or options in the Group. |
| Directorships held in other listed entities | During the past three years, Mr Lamboley has not served as a director of any other companies listed on the Australian Stock Exchange. |
| Mr Anthony Eastman | Joint Company Secretary |
| Qualifications | Bachelor of Commerce, CA |
| Experience | Mr Eastman is a Chartered Accountant with a number of years experience in financial management and corporate advisory services. He has previously worked with Ernst & Young and CalEnergy Gas Ltd, a subsidiary of the Berkshire Hathaway Group of Companies in both Australia and the United Kingdom. Mr Eastman is currently Joint Company Secretary of Range Resources Limited. |
| Interest in shares and options | Mr Eastman holds 70,000 shares in the Group. |
| Directorships held in other listed entities | Range Resources Limited From: 16 June 2009 |
| Ms Jane Flegg | Joint Company Secretary |
| Experience | Ms Flegg has over 20 years of experience in finance and administration. During the past decade she has been a Corporate Advisor to several ASX listed mining and oil and gas exploration companies, specialising in corporate and financial management, compliance and company secretarial advice. Ms Flegg is currently Joint Company Secretary of Range Resources Limited and Uran Limited. |
| Interest in Shares and Options | Ms Flegg holds 20,000 shares in the Group. |

DIRECTOR'S REPORT

Remuneration Report (Audited)

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

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

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

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

A Remuneration Policy

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

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

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

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

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

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

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

Remuneration Report (Audited) (cont'd)

Remuneration Committee

During the year ended 30 June 2011, the Group did not have a separately established nomination or remuneration committee. Considering the size of the Group, the number of directors and the Group's early stages of its development, the Board is of the view that these functions could be efficiently performed with full Board participation.

Remuneration Structure

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

Key Management Personnel Remuneration Policy

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

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

Non-Executive Director Remuneration

Objective

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

Structure

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

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

B Details of Remuneration

Executive Director Remuneration

Objective

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

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

DIRECTOR'S REPORT

Remuneration Report (Audited) (cont'd)

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

Structure

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

Key Management Personnel Remuneration

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

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

- Andrew Macaulay Executive Chairman
- Jason Brewer Executive Director
- Don Turvey Executive Director (from 9 March 2011)
- Peter Landau Executive Director
- Bruce Buthelezi Executive Director
- James Leahy Non-Executive Director (from 27 May 2011)
- Manuel Lambole Non-Executive Director (to 27 May 2011)
- Anthony Eastman Joint Company Secretary
- Jane Flegg Joint Company Secretary

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

- Andrew Macaulay Chairman
- Bruce Buthelezi Managing Director
- Don Turvey Chief Executive Officer
- Rachel Hebron Chief Financial Officer (from 1 November 2010)
- Jason Brewer Non-Executive Director (from 31 January 2011)
- Martin Westerman Non-Executive Director (to 31 January 2011)

And those executives that report directly to the Chief Executive officer of the South African Subsidiary, Continental Coal Ltd

- Johan Heystek Chief Operating Officer (from 1 November 2010)

DIRECTOR'S REPORT

Remuneration Report (Audited) (cont'd)

| 2011 | Short-term benefits | | Post-employment benefits | Share-based payments | Total | Performance Related | Options as Remuneration |
|------------------------------------------|------------------------------|----------------------|--------------------------|----------------------------------------------|-----------|---------------------|-------------------------|
| Name | Cash, Salary and Commissions | Bonus's ¹ | Super-annuation | Options ² (7.5 cents, 31/12/2013) | | | |
| | \$ | | \$ | \$ | \$ | \$ | % |
| Key Management Personnel | | | | | | | |
| Andrew Macaulay | 418,322 | 145,648 ¹ | 42,289 | - | 606,259 | Nil | - |
| Jason Brewer | 112,500 | - | - | 1,772,032 ² | 1,884,532 | Nil | 94% |
| Don Turvey | 487,177 | 84,351 ¹ | 56,471 | - | 627,999 | Nil | - |
| Peter Landau | 163,500 | - | - | 1,772,032 ² | 1,935,532 | Nil | 92% |
| James Leahy (from 27 May 2011) | 5,038 | - | - | - | 5,038 | Nil | - |
| Bruce Buthelezi | 362,254 | 145,307 ¹ | 30,328 | - | 537,889 | Nil | - |
| Manuel Lamboley (to 27 May 2011) | 64,163 | - | - | - | 64,163 | Nil | - |
| Johan Heystek (from 1 November 2010) | 252,045 | - | 22,570 | - | 274,615 | Nil | - |
| Rachel Hebron (from 1 November 2010) | 127,553 | - | 15,747 | - | 143,300 | Nil | - |
| Anthony Eastman* | - | - | - | - | - | Nil | - |
| Jane Flegg * | - | - | - | - | - | Nil | - |
| Martin Westerman (to 31 January 2011) | 252,735 | 105,013 ¹ | 16,810 | - | 374,558 | Nil | - |
| | 2,245,287 | 480,319 | 184,215 | 3,544,064 | 6,453,885 | | 55% |

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

1 The bonus payments made to KMP's in South Africa were based on the milestones of Acquisition of Mashala, finalising KORES JV and production commencement at Vlakvarkontein.

2 The Director options were valued at time of issue on 20 December 2010.

As at the date of this report the company has assessed the fair value of the Director options to be \$148,598 for Peter Landau and \$148,598 for Jason Brewer and the exercise price is \$0.75 after the completion of the 10:1 equity consolidation.

DIRECTOR'S REPORT

Remuneration Report (Audited) (cont'd)

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

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

Remuneration Report (Audited) (cont'd)

C Equity-based compensation

Options issued as part of remuneration for the year ended 30 June 2011

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

Options Granted As Remuneration

| Key Management Personnel | Vested No. | Granted No. | Date Granted | Date Vested & Exercisable | Last Exercisable Date | Exercise Price | Value per option at grant date \$ | Total Value ¹ \$ |
|--------------------------|------------|-------------|--------------|---------------------------|-----------------------|----------------|-----------------------------------|-----------------------------|
| Andrew Macaulay | - | - | - | - | - | - | - | - |
| Jason Brewer | - | 50,000,000 | 20/12/2010 | 20/12/2010 | 31/12/2013 | 7.5 cents | 4 cents | 1,772,032 ¹ |
| Don Turvey | - | - | - | - | - | - | - | - |
| Peter Landau | - | 50,000,000 | 20/12/2010 | 20/12/2010 | 31/12/2013 | 7.5 cents | 4 cents | 1,772,032 ¹ |
| James Leahy | - | - | - | - | - | - | - | - |
| Bruce Buthelezi | - | - | - | - | - | - | - | - |
| Manuel Lambole | - | - | - | - | - | - | - | - |
| Johan Heystek | - | - | - | - | - | - | - | - |
| Rachel Hebron | - | - | - | - | - | - | - | - |
| Anthony Eastman | - | - | - | - | - | - | - | - |
| Jane Flegg | - | - | - | - | - | - | - | - |
| Martin Westerman | - | - | - | - | - | - | - | - |
| | - | 100,000,000 | - | - | - | - | - | - |

All options were granted for nil consideration. 100,000,000 options vested during the year.

¹ The Director options were valued at time of issue on 20 December 2010.

As at the date of this report the company has assessed the fair value of the Director options to be \$148,598 for Peter Landau and \$148,598 for Jason Brewer and the exercise price is \$0.75 after the completion of the 10:1 equity consolidation.

DIRECTOR'S REPORT

Remuneration Report (Audited) (cont'd)

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

| Name | Number of options granted during the year | Number of options vested during the year | | |
|------------------|----------------------------------------------|---------------------------------------------|------------|------|
| | 2011 | 2010 | 2011 | 2010 |
| Andrew Macaulay | - | - | - | - |
| Jason Brewer | 50,000,000 | - | 50,000,000 | - |
| Don Turvey | - | - | - | - |
| Peter Landau | 50,000,000 | - | 50,000,000 | - |
| James Leahy | - | - | - | - |
| Bruce Buthelezi | - | - | - | - |
| Johan Heystek | - | - | - | - |
| Rachel Hebron | - | - | - | - |
| Manuel Lambole | - | - | - | - |
| Anthony Eastman | - | - | - | - |
| Jane Flegg | - | - | - | - |
| Martin Westerman | - | 5,000,000 | - | - |

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

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

| | 2011 | 2010 |
|------------------------------------------------|------------------|--------------|
| (i) exercise price: | 7.5 cents | 10 cents |
| (ii) grant date: | 20 December 2010 | 1 July 2009 |
| (iii) expiry date: | 31 December 2013 | 30 June 2012 |
| (iv) share price at grant date: | 6.8 cents | 6 cents |
| (v) expected volatility of the group's shares: | 78.64% | 70% |
| (vi) expected dividend yield: nil | Nil | Nil |
| (vii) risk-free interest rate: | 5.2 % | 3.93% |

Remuneration Report (Audited) (cont'd)

Shares Issued on Exercise of Compensation Options

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

| | 2011 | 2011 | 2011 |
|-----------------|------------------------------------------------------|------------------|------------------------------------------|
| | Options Granted as Part of Remuneration ¹ | % Vested to date | Maximum Total Value of Grant yet to Vest |
| | \$ | | \$ |
| Andrew Macaulay | - | - | - |
| Jason Brewer | 1,772,032 ¹ | 100% | - |
| Don Turvey | - | - | - |
| Peter Landau | 1,772,032 ¹ | 100% | - |
| James Leahy | - | - | - |
| Bruce Buthelezi | - | - | - |
| Johan Heystek | - | - | - |
| Rachel Hebron | - | - | - |
| Manuel Lambole | - | - | - |
| Anthony Eastman | - | - | - |
| Jane Flegg | - | - | - |
| | 3,544,064 | - | - |

¹ The Director options were valued at time of issue on 20 December 2010.

As at the date of this report the company has assessed the fair value of the Director options to be \$148,598 for Peter Landau and \$148,598 for Jason Brewer and the exercise price is \$0.75 after the completion of the 10:1 equity consolidation.

D Employment Contracts of Directors and Senior Executives

Employment Contracts of Directors and Senior Executives

Remuneration and other terms of employment for Executive Directors (Mr Peter Landau and Jason Brewer) and Non-Executive Directors (Mr James Leahy (from 27 May 2011) and Mr Manuel Lambole (to 27 May 2011)) are formalised in consultancy agreements with the parent company.

Agreements for Executive Chairman Mr Andrew Macaulay, Executive Director Mr Bruce Buthelezi, Chief Executive Office Mr Don Turvey, Chief Financial Officer Ms Rachel Hebron (from 31 January 2011) and Mr Martin Westerman (to 31 January 2011) and Chief Operating Officer Johan Heystek are with the subsidiary Continental Coal Ltd in South Africa.

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

Agreements with parent company

Executive Director – Mr Jason Brewer

- Term of Agreement – The agreement commenced on 16 December 2009, for a term of three years or until either party gives 3 months written notice of termination or otherwise terminated in accordance with the consultancy agreement.

DIRECTOR'S REPORT

Remuneration Report (Audited) (cont'd)

- Remuneration \$150,000 per annum plus GST payable monthly and reviewed annually, payable to Mr Jason Brewer or nominee.
- Payment of termination of Agreement without cause – the balance of any part of the term remaining, subject to the requirements of ASX Listing Rule 10.19.

Executive Director – Mr Peter Landau

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

Non-Executive Director – Mr James Leahy (from 27 May 2011)

- Term of Agreement – The agreement commenced on 27 May 2011 for a term of three years or until either party gives 3 months written notice of termination or otherwise terminated in accordance with the consultancy agreement.
- Remuneration \$40,000 per annum, payable to Mr James Leahy or nominee
- Payment of termination of Agreement without cause – the balance of any part of the term remaining, subject to the requirements of ASX Listing Rule 10.193

Non-Executive Director – Mr Manuel Lambole (resigned 27 May 2011)

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

Agreements with subsidiary

Executive Chairman – Mr Andrew Macaulay

- Term of Agreement – The agreement was effective 1 April 2008 for an unspecified term or until either party gives one month's written notice of termination or otherwise terminated in accordance with the consultancy agreement.
- Remuneration Rand 2,595,432 (AU\$357,910) per annum payable monthly and reviewed annually, payable to Mr Andrew Macaulay or nominee
- Payment of termination of Agreement without cause – the balance of any part of the notice period

Executive Director – Mr Bruce Buthelezi

- Term of Agreement – The agreement was effective 1 April 2008 for an unspecified term or until either party gives one month's written notice of termination or otherwise terminated in accordance with the consultancy agreement.
- Remuneration Rand 2,563,452 (AU\$353,500) per annum payable monthly and reviewed annually, payable to Mr Bruce Buthelezi or nominee
- Payment of termination of Agreement without cause – the balance of any part of the notice period

Remuneration Report (Audited) (cont'd)

Chief Executive Officer – Mr Don Turvey

- Term of Agreement – The agreement commenced on 10 May 2010 for an unspecified term or until either party gives six month's written notice of termination or otherwise terminated in accordance with the consultancy agreement.
- Remuneration Rand 3,400,000 (AU\$468,860) per annum payable monthly and reviewed annually, payable to Mr Don Turvey or nominee and incentive payment of 1m shares and 10m options exercisable at \$0.50, 31/12/2013 (post consolidation)
- Payment of termination of Agreement without cause – the balance of any part of the notice period

Chief Financial Officer – Ms Rachel Hebron

- Term of Agreement – The agreement transferred from Mashala upon acquisition on 1 November 2010 for an unspecified term or until either party gives one month's written notice of termination or otherwise terminated in accordance with the consultancy agreement.
- Remuneration Rand 1,316,789 (AU\$181,585) per annum payable monthly and reviewed annually, payable to Ms Hebron or nominee
- Payment of termination of Agreement without cause – the balance of any part of the notice period

Non-Executive Director (to 31 January 2011) of South African Subsidiary – Mr Martin Westerman

- Term of Agreement – The agreement commenced on 2 February 2009 for an unspecified term or until either party gives one month's written notice of termination or otherwise terminated in accordance with the consultancy agreement.
- Remuneration Rand 1,872,000 (AU\$258,148) per annum payable monthly and reviewed annually, payable to Mr Westerman or nominee
- Payment of termination of Agreement without cause – the balance of any part of the notice period

Chief Operating Officer – Mr Johan Heystek

- Term of Agreement – The agreement transferred from Mashala upon acquisition on 1 November 2010 for an unspecified term or until either party gives one month's written notice of termination or otherwise terminated in accordance with the consultancy agreement.
- Remuneration Rand 2,523,455 (AU\$347,985) per annum payable monthly and reviewed annually, payable to Mr Heystek or nominee
- Payment of termination of Agreement without cause – the balance of any part of the notice period

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

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

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

There were no loans to directors during the financial year.

This is the end of the audited Remuneration Report.

DIRECTOR'S REPORT

Meetings of Directors

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

| Director | Board Meetings | | Audit and Compliance Committee | |
|----------------|---------------------------|----------|--------------------------------|----------|
| | Held & Eligible to attend | Attended | Held | Attended |
| Mr A Macaulay | 7 | 7 | N/A | N/A |
| Mr J Brewer | 7 | 7 | N/A | N/A |
| Mr D Turvey | 2 | 2 | N/A | N/A |
| Mr P Landau | 7 | 7 | 2 | 2 |
| Mr J Leahy | - | - | N/A | N/A |
| Mr B Buthelezi | 7 | 7 | N/A | N/A |
| Mr M Lambole | 7 | - | N/A | N/A |

Indemnifying Officers or Auditor

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

During the year the Group paid a premium of \$18,574 to insure the directors and officers of the Group.

Options

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

| Date of Expiry | Exercise Price | Number Under-Option Post consolidation |
|----------------|----------------|-------------------------------------------|
| 19/10/2011 | \$1.50 | 6,000,000 |
| 19/10/2011 | \$2.00 | 6,000,000 |
| 13/02/2013 | \$0.50 | 76,853,740 ¹ |
| 31/12/2013 | \$0.75 | 11,000,000 |
| 16/07/2016 | \$0.50 | 4,000,000 |
| 16/07/2016 | \$1.00 | 4,000,000 |
| 01/07/2016 | \$0.44 | 11,748,121 |
| 23/08/2016 | \$0.4122 | 13,950,893 |
| 31/10/2015 | \$0.64 | 1,627,548 |
| 30/06/2012 | \$1.00 | 450,000 |
| 31/10/2012 | \$0.50 | 114,270 |
| | | 135,744,572 |

¹ Listed Options.

Options (cont'd)

During the year ended 30 June 2011, 294,056 (2010: 136,000,000) ordinary shares of Continental Coal Limited were issued on the exercise of options.

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

Proceedings on Behalf of Group

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

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

Non-Audit Services

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

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

KPMG South Africa provided non-audit services to the subsidiary for \$17,753 (note 7) in relation to tax compliance during the year.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2011 as required under Section 307c of the *Corporations Act 2001*, is set out on page 28.

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



Jason Brewer
Executive Director

Dated this 30th day of September 2011

AUDITOR'S INDEPENDENCE DECLARATION



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

30 September 2011

The Directors
Continental Coal Limited
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 of Continental Coal Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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

Glyn O'Brien
Director

BDO Audit (WA) Pty Ltd
Perth Western Australia

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

| | Note | Consolidated | |
|----------------------------------------------------------------------------------------------------------------------------------|------|---------------------|---------------------|
| | | 2011 | 2010 |
| | | \$ | \$ |
| Revenue from continuing operations | 2 | 50,833,866 | - |
| Interest Income | | 439,277 | 14,632 |
| Other income | 2 | 9,986,004 | 353,016 |
| Cost of sales | 3 | (47,254,999) | - |
| Employee benefits expense | 3 | (2,518,484) | (1,983,572) |
| Depreciation expense | 3 | (4,309,746) | (77,430) |
| Finance Costs | 3 | (11,109,126) | (12,254,969) |
| Consulting costs | 3 | (9,816,566) | (3,279,792) |
| Provision for impairment | 3 | (11,855,895) | (2,003,027) |
| Other expenses | 3 | (16,243,976) | (8,230,336) |
| Loss before income tax | | (41,849,645) | (27,461,478) |
| Income tax expense | 4 | - | - |
| Loss from continuing operations | | (41,849,645) | (27,461,478) |
| Loss for the year | | (41,849,645) | (27,461,478) |
| Other Comprehensive Income/(Loss) | | | |
| Exchange differences on translation of foreign operations | | (9,082,715) | (37,077) |
| Other comprehensive income/(loss) for the year, net of tax | | (9,082,715) | (37,077) |
| Total comprehensive income/(loss) for the year | | (50,932,360) | (27,498,555) |
| Net loss is attributable to: | | | |
| Owners of Continental Coal Limited | | (34,476,106) | (24,856,150) |
| Non-controlling interests | | (7,373,539) | (2,605,328) |
| | | (41,849,645) | (27,461,478) |
| Total comprehensive loss is attributable to: | | | |
| Owners of Continental Coal Limited | | (43,408,044) | (24,883,587) |
| Non-controlling interests | | (7,524,316) | (2,614,968) |
| | | (50,932,360) | (27,498,555) |
| 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) | 8 | (1.61) | (2.68) |
| Diluted loss per share (cents per share) | | - | - |

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the Notes to the Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

ASSETS

CURRENT ASSETS

Cash and cash equivalents

Trade and other receivables

Prepaid borrowing costs

Inventories

Non-current assets classified as held for sale

TOTAL CURRENT ASSETS

NON-CURRENT ASSETS

Prepaid borrowing costs

Available-for-sale financial assets

Exploration expenditure

Development expenditure

Property, plant and equipment

Other financial assets

TOTAL NON-CURRENT ASSETS

TOTAL ASSETS

CURRENT LIABILITIES

Trade and other payables

Deferred revenue

Borrowings

Provisions

Accruals relating to held-for-sale assets

TOTAL CURRENT LIABILITIES

NON-CURRENT LIABILITIES

Deferred revenue

Provision for rehabilitation

Borrowings

TOTAL NON-CURRENT LIABILITIES

TOTAL LIABILITIES

NET ASSETS

EQUITY

Issued capital

Shares and options to be issued

Reserves

Accumulated losses

Capital and reserves attributable to owners of Continental Coal Limited

Less: Amounts attributable to non-controlling interests

TOTAL EQUITY

| Note | Consolidated | |
|-----------|--------------------|-------------------|
| | 2011 \$ | 2010 \$ |
| | | |
| 9 | 12,050,227 | 39,822 |
| 10 | 7,969,914 | 890,877 |
| 11 | - | 1,775,644 |
| 12 | 4,963,316 | - |
| | 24,983,457 | 2,706,343 |
| 5 | 10,066,136 | 9,758,024 |
| | 35,049,593 | 12,464,367 |
| | | |
| 11 | - | 15,948 |
| | - | 113,437 |
| 16 | 121,732,226 | 47,588,978 |
| 17 | 16,498,373 | 9,059,226 |
| 18 | 6,301,138 | 353,010 |
| 19 | - | 8,835,750 |
| | 144,531,737 | 65,966,349 |
| | 179,581,330 | 78,430,716 |
| | | |
| 20 | 34,890,904 | 14,014,746 |
| 21 | 193,060 | 1,606,500 |
| 23 | - | 19,794,870 |
| | 391,188 | - |
| | 35,475,152 | 35,416,118 |
| | - | 557,754 |
| | 35,475,152 | 35,973,872 |
| | | |
| 21 | 14,212,160 | - |
| 22 | 7,986,599 | 2,231,672 |
| 23 | 16,000,000 | - |
| | 38,198,759 | 2,231,672 |
| | 73,673,910 | 38,205,544 |
| | 105,907,420 | 40,225,172 |
| | | |
| 24 | 190,068,112 | 100,829,337 |
| 25 | 14,380,121 | 90,000 |
| 26 | 23,074,635 | 19,027,383 |
| | (111,476,164) | (77,106,580) |
| | 116,046,704 | 42,840,140 |
| | (10,139,284) | (2,614,968) |
| | 105,907,420 | 40,225,172 |

The above Consolidated Statement of Financial Position should be read in conjunction with the notes to the Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

| | 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 year | - | (24,856,150) | - | - | - | - | (24,856,150) | (2,605,328) | (27,461,478) |
| Exchange differences on translation of foreign operations | - | - | (27,437) | - | - | - | (27,437) | (9,640) | (37,077) |
| Total comprehensive income/ (loss) for the year | - | (24,856,150) | (27,437) | - | - | - | (24,883,587) | (2,614,968) | (27,498,555) |
| Transactions with owners in their capacity as owners: | | | | | | | | | |
| Shares issued during the year | 48,450,650 | - | - | - | - | - | 48,450,650 | - | 48,450,650 |
| Transaction costs | (1,775,911) | - | - | - | - | - | (1,775,911) | - | (1,775,911) |
| Un-issued shares/options | - | - | - | - | - | (16,204,698) | (16,204,698) | - | (16,204,698) |
| Transfers to and from reserve | - | - | - | - | 12,027,579 | - | 12,027,579 | - | 12,027,579 |
| - share based payment reserve | - | - | - | - | - | - | - | - | - |
| 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 year | - | (34,476,106) | - | - | - | - | (34,476,106) | (7,373,539) | (41,849,645) |
| Exchange differences on translation of foreign operations | - | - | (8,931,938) | - | - | - | (8,931,938) | (150,777) | (9,082,715) |
| Total comprehensive income/ (loss) for the year | - | (34,476,106) | (8,931,938) | - | - | - | (43,408,044) | (7,524,316) | (50,932,360) |
| Transactions with owners in their capacity as owners: | | | | | | | | | |
| Shares issued during the year | 104,065,304 | - | - | - | - | - | 104,065,304 | - | 104,065,304 |
| Transaction costs | (14,826,529) | - | - | - | - | - | (14,826,529) | - | (14,826,529) |
| Un-issued shares/options | - | - | - | - | - | 14,290,121 | 14,290,121 | - | 14,290,121 |
| Transfers to and from reserve | - | - | - | - | 4,814,974 | - | 4,814,974 | - | 4,814,974 |
| - option reserve | - | - | - | - | - | - | - | - | - |
| - share based payment reserve | - | 106,522 | - | - | 8,164,216 | - | 8,270,738 | - | 8,270,738 |
| Balance at 30 June 2011 | 190,068,112 | (111,476,164) | (8,724,550) | 652,602 | 31,146,583 | 14,380,121 | 116,046,704 | (10,139,284) | 105,907,420 |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

| | Note | Consolidated 2011 \$ | 2010 \$ |
|------------------------------------------------------------------------------------------------------------------------------|-----------|----------------------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 45,404,502 | 1,606,500 |
| Interest received | | 439,277 | 14,632 |
| Payments to suppliers and employees | | (54,524,555) | (751,250) |
| Deferred income | | 12,605,660 | - |
| Net cash (used in) operating activities | 31 | 3,924,884 | 869,882 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Exploration expenditure | 16 | (22,863,706) | (21,382,598) |
| Development costs | 17 | - | - |
| Deposit equity investment | | - | (8,835,750) |
| Payment for acquisition of subsidiary net of cash acquired | 14 | (51,715,797) | - |
| Purchase of other non-current assets | | (1,374,798) | (137,342) |
| Net cash provided by / (used in) investing activities | | (75,954,301) | (30,355,690) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares, net of transaction costs | | 83,105,617 | 19,142,980 |
| Finance costs | | (8,252,278) | (1,856,794) |
| Proceeds from borrowings | | 16,000,000 | 13,058,695 |
| Repayment of borrowings | | (6,813,229) | (909,120) |
| Net cash provided by financing activities | | 84,040,110 | 29,435,761 |
| Net increase/(decrease) in cash held | | 12,010,694 | (50,047) |
| Effect of the exchange rate changes on the balance of cash held in foreign currencies at the beginning of the financial year | | (289) | 87 |
| Cash at beginning of financial year | | 39,822 | 89,782 |
| Cash at end of financial year (i) | 9 | 12,050,227 | 39,822 |

(i) Subsequent to 30 June 2011 US\$10m was received in tranche 2 of a placement to SOCIUS.

The above Consolidated Statement of Cashflows should be read in conjunction with the Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

Note 1: Statement of Significant Accounting Policies

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

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

Basis of Preparation

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

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

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

Functional and presentation currency

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

Accounting Policies

(a) Principles of Consolidation

Subsidiaries

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont'd)

(a) Principles of Consolidation (cont'd)

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

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

Changes in Ownership Interests

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

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

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

Business Combinations

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont'd)

(a) Principles of Consolidation (cont'd)

All purchase consideration is recorded at fair value at the acquisition date. Contingent payments classified as Acquisition –related costs are expensed as incurred.

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

If the Group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will not be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

(b) Income Tax

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont'd)

(c) Segment Reporting

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

(d) Property, Plant and Equipment

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

Plant and equipment

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

Depreciation

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

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

| Class of Fixed Asset | Depreciation Rate |
|----------------------|-------------------|
| Australia | |
| Computer equipment | 25% |
| South Africa | |
| Furniture & fittings | 15% |
| Office equipment | 10% |
| Computer equipment | 33% |
| Land and buildings | 5% |

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

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

(e) Exploration and Development Expenditure

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont'd)

(e) Exploration and Development Expenditure (cont'd)

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

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

(f) Development expenditure

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

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

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

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

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

(g) Rehabilitation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont'd)

(h) Investments and Other Financial Assets

Classification

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

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 10) in the statement of financial position.

(ii) Available-for-sale financial assets

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

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

Recognition and Initial Measurement

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

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

Subsequent measurement

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

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

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

Impairment

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont'd)

(h) Investments and Other Financial Assets (cont'd)

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

(i) Impairment of Assets

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

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

(j) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Group companies

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont'd)

(k) Employee Benefits

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

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

(l) Provisions

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

(m) Cash and Cash Equivalents

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

(n) Revenue Recognition

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

(I) Sale of Goods

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

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

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

(II) Interest revenue

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont'd)

(o) Trade Receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of provision is recognised in the profit or loss within other expenses.

(p) Trade and Other Payables

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

(q) Borrowings

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

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

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

(r) Borrowing Costs

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont'd)

(s) Goods and Services Tax (GST) and (VAT) (cont'd)

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

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

(t) Contributed Equity

Ordinary shares are classified as equity.

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

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

(u) Earnings Per Share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(v) Share-Based Payments

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont'd)

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

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

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

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

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

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

(x) Comparative Figures

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

(y) Critical Accounting Estimates and Judgements

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

Key estimates – Exploration assets

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of exploration assets. Where an impairment trigger exists, the recoverable amount of the asset is determined based on historical knowledge and best available current information. \$11,855,895 of exploration expenditure was written-off during the year as it was determined to be non-recoverable.

Reserve estimates

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont'd)

(y) Critical Accounting Estimates and Judgements (cont'd)

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

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

Non-Recognition of Deferred Tax Asset

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

Rehabilitation provision

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

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

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

Classification of revenue

Revenue is carried against the asset until Commercial production occurs.

Share Based Payments

The Group provides benefits to employees (including directors) and suppliers of the Group in the form of share-based payment transactions, whereby employees and suppliers render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions are measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which any applicable performance conditions are fulfilled, ending on the date on which the relevant employees or suppliers become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- (i) the extent to which the vesting period has expired; and
- (ii) the number of options that, in the opinion of the directors of the Group, will ultimately vest.

This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Statement of Significant Accounting Policies (cont'd)

(y) Critical Accounting Estimates and Judgements (cont'd)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

(z) Inventories

Raw Materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprise direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the reclassification from equity of any gains or losses on qualifying cash flow hedges relating to purchases of raw material but excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling prices in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(aa) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 28). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Note 2: Revenue and other income

| | Consolidated | |
|-----------------------------------------------------------------|--------------|---------|
| | 2011 \$ | 2010 \$ |
| Revenue from Continuing operations | | |
| – Export coal sales | 39,818,414 | - |
| – Eskom coal sales | 924,263 | - |
| – Other coal sales | 10,091,189 | - |
| Total revenue from continuing operations | 50,833,866 | - |
| Other income | | |
| – Foreign exchange gain on revaluation of USD and ZAR loans | 485,258 | 353,016 |
| – Net gain on sale of assets | 18,563 | - |
| – Net gain on fair value of acquisition of subsidiary (Note 14) | 8,466,299 | - |
| – Share based payment reversal | 225,477 | - |
| – Recovery of costs | 790,407 | - |
| Total other income | 9,986,004 | 353,016 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 3: Profit/(loss) for the year

| | Consolidated | |
|---------------------------------------------------------------------------------|--------------|------------|
| | 2011 \$ | 2010 \$ |
| (a) Loss before income tax includes the following specific expenses: | | |
| – Cost of sales | | - |
| – Mining | 23,578,645 | - |
| – Processing | 4,694,475 | - |
| – Materials handling | 2,042,997 | - |
| – Indirect costs | 1,004,357 | - |
| – Export costs | 5,673,161 | - |
| – Bought in coal | 11,822,792 | - |
| – Administration costs | 625,139 | - |
| – Mining Royalties | 147,328 | - |
| – Stock on hand movement | (2,333,895) | - |
| Total cost of sales | 47,254,999 | - |
| Finance costs | | |
| – Interest and finance charges | 2,717,518 | 3,744,717 |
| – Options issued in respect of EDFT coal loan | 4,288,880 | - |
| – Unwinding of prepaid borrowing costs | 3,499,031 | 8,403,982 |
| – Other borrowing costs | 603,697 | 106,270 |
| Total finance costs | 11,109,126 | 12,254,969 |
| Impairment | | |
| – Impairment of available-for-sale investments – unrealised | - | 78,751 |
| – Write off exploration expenses from continuing operations (i) | - | 1,924,276 |
| – Impairment of acquisition costs of Project X, Vaalbank and Lemoenfontein (ii) | 11,855,895 | - |
| Total impairment | 11,855,895 | 2,003,027 |
| Depreciation | 4,309,746 | 77,430 |
| Other Expenses: | | |
| – Employee related costs | 2,518,484 | 1,983,572 |
| – Directors fees (iii) | 6,422,372 | 277,215 |
| – Pre feasibility costs in relation to South African projects | 3,404,469 | 879,240 |
| – Consultants (including share based payments) facilitation & capital raising | 9,816,566 | 3,279,792 |
| – Legal fees | 481,351 | 691,363 |
| – Finders fees | - | 1,256,609 |
| – Occupancy | 343,337 | 268,392 |

(i) Impairment from 30 June 2010 Financial Year – Witbank, Uitkomst, Canyon Springs and Loskop created an impairment charge of \$1,924,276.

(ii) During the 2011 financial year the updated JORC compliant Coal Resource statement and assessment, review and audit of the Company's South African thermal coal projects resulted in a reduction in total resources and measured resources for both the Vaalbank and Project X Coal Projects. The Company is concerned with the discrepancies from earlier independent resource statements and is completing a review of the previous work undertaken by the Company's geological consultants. As a result of these discrepancies the Company has adopted a prudent approach to its valuation of its Coal Projects resulting in an impairment charge of \$11,855,895 (Project X \$10,955,583, Vaalbank \$771,275 and Lemoenfontein \$129,037).

(iii) Includes an amount of \$3,544,064 for the issue of 100,000,000 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 4: Income Tax Expense

(a) The components of tax expense comprise:

- Current tax
- Deferred tax
- Recoupment of prior year tax losses
- Under provision in respect of prior years

(b) The prima facie tax on profit/(loss) before income tax is reconciled to the income tax as follows:

Profit/(loss) from continuing operations before income tax

- Consolidated Group

Prima facie tax payable on profit before income tax at 30% (2010: 30%)

- Consolidated Group

Add:

Tax effect of:

- Non-deductible other expenditure
- Non deductible interest expense
- Difference in overseas tax rate
- Share based payments

Deferred tax asset in relation to tax losses and temporary differences not recognized

Income tax attributed to entity

(c) Deferred tax asset not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in note 1b occur

- Temporary difference
- Tax losses
- Operating losses
- Capital losses

| Consolidated | |
|--------------|--------------|
| 2011 \$ | 2010 \$ |
| - | - |
| - | - |
| - | - |
| - | - |
| - | - |
| (41,849,645) | (27,461,478) |
| (12,554,889) | (8,238,443) |
| | |
| 4,384,373 | 907,767 |
| 2,599,488 | 2,031,045 |
| 588,775 | 206,046 |
| 1,063,219 | 1,055,585 |
| (3,919,034) | (4,038,000) |
| 3,919,034 | 4,038,000 |
| - | - |
| 3,538,340 | 3,053,676 |
| 8,636,447 | 5,739,798 |
| 1,924,150 | 1,924,150 |
| 14,098,937 | 10,717,624 |

Note 5: Non-current assets classified as held-for-sale and discontinued operations

Investment in Vanmag

Liabilities directly associated with Vanmag

| Consolidated | |
|--------------|------------|
| 2011 \$ | 2010 \$ |
| 10,066,135 | 9,758,024 |
| 10,066,135 | 9,758,024 |
| - | 557,754 |
| - | 557,754 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 5: Non-current assets classified as held-for-sale and discontinued operations (cont'd)

During the 2010 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 for net proceeds of US\$10 million. Financial settlement of the sale is subject to consent from the South African Department of Mineral Resources for the transfer of the interest which is expected Q2 2011/12.

During the 2009 year, Continental acquired 49% of the issued capital of Vanadium and Magnetite Exploration Development Co (SA) "Vanmag" instead of direct interest in the area of interest and as a result the investment should be equity accounted for in accordance with AASB 128, Investments in Associates. In accordance with the requirements of AASB 128, Continental have not equity accounted Van Mag at 30 June 2011 because the investment is classified as held for sale in accordance with AASB 5.

Note 6: Key Management Personnel Compensation

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

| Key Management Person | Position |
|---------------------------------------|---------------------------------------------------------------------------|
| Andrew Macaulay | Executive Chairman |
| Jason Brewer | Executive Director |
| Don Turvey | Chief Executive Officer |
| Peter Landau | Executive Director |
| Bruce Buthelezi | Executive Director |
| James Leahy (from 27 May 2011) | Non-Executive Director |
| Manuel Lambole (to 27 May 2011) | Non-Executive Director |
| Anthony Eastman | Joint Company Secretary |
| Jane Flegg | Joint Company Secretary |
| Rachel Hebron (from 1 November 2010) | Chief Financial Officer |
| Johan Heystek (from 1 November 2010) | Chief Operating Officer |
| Martin Westerman (to 31 January 2011) | Chief Financial Officer / Non-Executive Director South African Subsidiary |

(b) Key Management Personnel Compensation

Short-term employee benefits
Post-employment benefits
Share-based payments

| Consolidated | |
|--------------|------------|
| 2011 \$ | 2010 \$ |
| 2,725,607 | 1,837,244 |
| 184,214 | 56,068 |
| 3,544,064 | 332,701 |
| 6,453,885 | 2,226,013 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 6: Key Management Personnel Compensation (cont'd)

(c) Options and Rights Holdings

Number of options held by Key Management Personnel

| | Balance 1/7/10 | Granted as compensation | Options exercised | Net Change Other* | Balance 30/6/11 | Total Vested 30/6/11 | Total Exercisable 30/6/11 | Total Unexercisable 30/6/11 |
|------------------|-------------------|----------------------------|----------------------|----------------------|--------------------|-------------------------|---------------------------------|-----------------------------------|
| Andrew Macaulay | - | - | - | - | - | - | - | - |
| Jason Brewer | - | 50,000,000 | - | - | 50,000,000 | 50,000,000 | 50,000,000 | - |
| Don Turvey | - | - | - | - | - | - | - | - |
| Peter Landau | - | 50,000,000 | - | - | 50,000,000 | 50,000,000 | 50,000,000 | - |
| James Leahy | - | - | - | - | - | - | - | - |
| Bruce Buthelezi | - | - | - | - | - | - | - | - |
| Manuel Lambole | - | - | - | - | - | - | - | - |
| Johan Heystek | - | - | - | - | - | - | - | - |
| Rachel Hebron | - | - | - | - | - | - | - | - |
| Anthony Eastman | - | - | - | - | - | - | - | - |
| Jane Flegg | - | - | - | - | - | - | - | - |
| Martin Westerman | 5,000,000 | - | - | (5,000,000) | - | - | - | - |
| Mike Nell | 15,000,000 | - | - | (15,000,000) | - | - | - | - |
| Total | 20,000,000 | 100,000,000 | - | (20,000,000) | 100,000,000 | - | 100,000,000 | - |

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

| | Balance 1/7/10 | Granted as compensation | Options exercised | Net Change Other* | Balance 30/6/11 | Total Vested 30/6/11 | Total Exercisable 30/6/11 | Total Unexercisable 30/6/11 |
|-------------------------|-------------------|----------------------------|----------------------|----------------------|--------------------|-------------------------|---------------------------------|-----------------------------------|
| Andrew Macaulay | - | - | - | - | - | - | - | - |
| Bruce Buthelezi | - | - | - | - | - | - | - | - |
| Jason Brewer | - | - | - | - | - | - | - | - |
| Peter Landau | 10,000,000 | - | - | (10,000,000) | - | - | - | - |
| Manuel Lambole | 4,000,000 | - | - | (4,000,000) | - | - | - | - |
| Simon Durack | - | - | - | - | - | - | - | - |
| Anthony Eastman | - | - | - | - | - | - | - | - |
| Jane Flegg | - | - | - | - | - | - | - | - |
| Lodewyk 'Don' Turvey | - | - | - | - | - | - | - | - |
| Martin Westerman | - | 5,000,000 | - | - | 5,000,000 | 2,500,000 | 2,500,000 | 2,500,000 |
| Mike Nell | - | 15,000,000 | - | - | 15,000,000 | - | - | 15,000,000 |
| Martin Van Der Poel | - | - | - | - | - | - | - | - |
| Petrus Snyder | 5,000,000 | - | - | (5,000,000) | - | - | - | - |
| Total | 19,000,000 | 20,000,000 | - | (19,000,000) | 20,000,000 | 2,500,000 | 2,500,000 | 17,500,000 |

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 6: Key Management Personnel Compensation (cont'd)

(d) Shareholdings

Number of shares held by Key Management Personnel

| | Balance 1/7/10 | Received as compensation | Options exercised | Net Change Other* | Balance 30/6/11 |
|------------------|-------------------|-----------------------------|----------------------|----------------------|--------------------|
| Andrew Macaulay | - | - | - | - | - |
| Jason Brewer | - | - | - | 950,000 | 950,000 |
| Don Turvey | - | - | - | - | - |
| Peter Landau | - | - | - | - | - |
| James Leahy | - | - | - | - | - |
| Bruce Buthelezi | - | - | - | - | - |
| Manuel Lambole | - | - | - | - | - |
| Johan Heystek | - | - | - | - | - |
| Rachel Hebron | - | - | - | - | - |
| Anthony Eastman | 70,000 | - | - | - | 70,000 |
| Jane Flegg | 20,000 | - | - | - | 20,000 |
| Martin Westerman | - | - | - | - | - |
| Total | 90,000 | - | - | 950,000 | 1,040,000 |

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

| | Balance 1/7/10 | Received as compensation | Options exercised | Net Change Other* | Balance 30/6/11 |
|----------------------|-------------------|-----------------------------|----------------------|----------------------|--------------------|
| Andrew Macaulay | - | - | - | - | - |
| Bruce Buthelezi | - | - | - | - | - |
| Jason Brewer | - | - | - | - | - |
| Peter Landau | - | - | - | - | - |
| Manuel Lambole | - | - | - | - | - |
| Simon Durack | - | - | - | - | - |
| Dr Richard Napier | - | - | - | - | - |
| Anthony Eastman | 70,000 | - | - | - | 70,000 |
| Jane Flegg | 20,000 | - | - | - | 20,000 |
| Lodewyk 'Don' Turvey | - | - | - | - | - |
| Martin Westerman | - | - | - | - | - |
| Mike Nell | - | - | - | - | - |
| Martin Van Der Poel | - | - | - | - | - |
| Petrus Snyder | - | - | - | - | - |
| Total | 90,000 | - | - | - | 90,000 |

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

(e) Consulting fees

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 7: Auditor's Remuneration

Amounts paid or payable to:

Remuneration of the auditor of the parent entity for:

(BDO Audit (WA) Pty Ltd)

Auditing and reviewing the financial report

Remuneration of the auditor of the subsidiary Continental Coal Ltd for:

(BDO Audit – South Africa)

Auditing and reviewing the financial report

(KPMG – South Africa (Inc)

Auditing fee

Other Services – Taxation compliance matters

| Consolidated | |
|--------------|------------|
| 2011 \$ | 2010 \$ |
| 180,316 | 123,091 |
| 123,595 | |
| 178,927 | 89,010 |
| 17,753 | 54,615 |
| 500,591 | 266,716 |

Note 8: Earnings/(loss) per Share

(a) Reconciliation of loss used in calculating loss per share

Loss for the year

Loss used to calculate basic EPS

Loss used in the calculation of dilutive EPS

| Consolidated | |
|--------------|--------------|
| 2011 \$ | 2010 \$ |
| (41,849,645) | (27,461,478) |
| (41,849,645) | (27,461,478) |
| (41,849,645) | (27,461,478) |

(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS

Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS

| No. | No. |
|---------------|---------------|
| 2,602,602,320 | 1,022,863,292 |
| 2,602,602,320 | 1,022,863,292 |

(c) The Group's potential ordinary shares were not considered dilutive, and as a result, diluted EPS is the same as basic EPS.

(d) Potential ordinary shares that could dilute EPS in the future

Weighted average number of ordinary shares (basic)

Effect of share options on issue

Effect of consultants shares issued post year end

Effect of conversion of debt to equity shares issued post year end

Effect of placement shares issued post year end

Weighted average number of ordinary shares (diluted) at 30 June

| No. | No. |
|---------------|---------------|
| 2,602,602,320 | 1,022,863,292 |
| 985,626,918 | 772,735,998 |
| - | 2,759,871 |
| 20,000,000 | - |
| 513,980,263 | - |
| 4,122,209,501 | 1,798,359,161 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 9: Cash and Cash Equivalents

Cash at bank and in hand (i)

The weighted interest rate on Maxi Direct High Interest Account was 2.60% (2010: 2.50%); these funds are on call.

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

Cash and cash equivalents (ii)

| Consolidated | |
|--------------|------------|
| 2011 \$ | 2010 \$ |
| 12,050,277 | 39,822 |
| 12,050,277 | 39,822 |
| | |
| 12,050,277 | 39,822 |
| 12,050,277 | 39,822 |

(i) Includes cash restricted under guarantees in the amount of 4,812,087 (30 June 2010:nil)

(ii) Subsequent to 30 June 2011 US\$10m was received in tranche 2 of a placement to SOCIUS

Note 10: Trade and Other Receivables

CURRENT

Trade receivables (a)

Other receivables (b)

| Consolidated | |
|--------------|------------|
| 2011 \$ | 2010 \$ |
| 6,911,414 | - |
| 6,911,414 | - |
| | |
| 1,058,500 | 890,887 |
| 1,058,500 | 890,887 |

(a) The Group's trade receivables are generally settled within 30 days. No interest is charged on outstanding balances.

Ageing of receivables:

Neither past due nor impaired

Past due but not impaired

| Consolidated | |
|--------------|------------|
| 2011 \$ | 2010 \$ |
| 6,775,540 | - |
| 135,874 | - |
| 6,911,414 | - |

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 11: Prepaid Borrowing costs

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

(a) Secured debt facility

The Group incurred the following borrowing costs in prior years to secure the \$20 million AUD secured debt facility (the full amount of \$20m was repaid during the financial year) disclosed in note 23:

| | Consolidated | |
|--------------------------|--------------|------------|
| | 2011 \$ | 2010 \$ |
| Share-based payments(i) | - | 4,465,452 |
| Brokerage and other fees | - | - |
| Total | - | 4,465,452 |

The transaction costs have been amortised over the two year life of the loan, resulting in \$1,791,592 of expense recognised at 30 June 2011 (2010: \$7,546,054) on top of interest that has been paid or accrued for on this loan at 30 June 2011.

At 30 June 2011 secured debt has been repaid and amortisation had been completed.

Note 12: Inventories

| | Consolidated | |
|---------------------------|--------------|------------|
| | 2011 \$ | 2010 \$ |
| CURRENT | | |
| Coal stockpiles – at cost | 4,963,316 | - |
| Total coal stockpiles | 4,963,316 | - |

Note 13: Available-for-sale Financial Assets

NON-CURRENT

| | | |
|------------------------------------------------------|---|---------|
| Available-for-sale financial assets | - | 113,437 |
| | - | 113,437 |
| Available-for-sale financial assets comprise: | | |
| NON-CURRENT | | |
| Listed investments, at fair value | - | 113,437 |
| – Shares in listed Australian corporations | - | 113,437 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 14: Business combination

1 (a) Summary of Acquisition – Ntshovelo Mining Resources

On 25 August 2010 the Group's subsidiary, Continental Coal Limited in South Africa completed the acquisition of 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 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.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration (refer to (b) below)

| | |
|------------------------------------------------------------------------|-----------|
| Cash paid for the acquisition of a 50% share and 60% economic interest | 8,590,960 |
| Total purchase consideration | 8,590,960 |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | Fair value |
|--------------------------------------------|--------------------|
| Acquired net assets | - |
| Mining Rights | 14,318,216 |
| Fair Value of assets | 14,318,216 |
| Total fair value of assets acquired | 14,318,216 |
| Less: Non-controlling interest | (5,727,256) |
| Acquirer's interest | 8,590,960 |
| Purchase Price | 8,590,960 |
| Goodwill | - |

The acquired business contributed revenues of \$9,589,463 and (net loss) of (\$1,606,768) to the Group from 25 August 2010 to 30 June 2011.

1 (b) Purchase consideration – cash outflow

| | 2011 | 2010 |
|-------------------------------------------------------------|-----------|-----------|
| Outflow of cash to acquire subsidiary, net of cash acquired | | |
| Cash consideration | 6,120,000 | 2,470,960 |
| Outflow of cash – investing activities | 6,120,000 | 2,470,960 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 14: Business combination (cont'd)

2 (a) 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 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. Subsequent to reporting date the Group increased its interest to 73.8% by making a cash payment of AUD \$5.4m.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

| | |
|------------------------------------------------------------|------------|
| Purchase consideration (refer to (b) below) | |
| Cash paid for the acquisition of a 64.1% majority interest | 45,595,797 |
| Deferred purchase consideration (Note 20) | 12,450,203 |
| Total purchase consideration | 58,046,000 |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | Fair value |
|-----------------------------------------|--------------------|
| Cash | 541,103 |
| Trade and other receivables | 1,729,532 |
| Inventories | 681,443 |
| Plant and equipment | 11,547,554 |
| Exploration | 760,341 |
| Trade and other payables | (4,525,403) |
| Rehab provision | (6,949,824) |
| Borrowings | (6,324,919) |
| Net identifiable assets acquired | (2,540,173) |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 14: Business combination (cont'd)

| | Fair value |
|--------------------------------------------------------------------|--------------------|
| Net asset value per consolidated Balance Sheet | (2,540,173) |
| Less: Mining rights, authorisation and surface lease | (1,256,035) |
| Less: Exploration costs (intangible) | (746,472) |
| Acquired tangible net assets | (4,542,680) |
| Mining Rights – Ferreira | 2,662,570 |
| Mining Rights – Penumbra | 40,579,814 |
| Mineral Rights (De Wittekrans, Leiden, Wesselton 2, Mooifontein) | 39,591,145 |
| Contracts – EDF | (11,778,694) |
| Fair Value of intangible assets acquired | 71,054,835 |
| Total fair value of tangible and intangible assets acquired | 66,512,299 |
| Less: Non-controlling interest | - |
| Acquirer's interest | 66,512,299 |
| Purchase Price | 58,046,000 |
| Gain on acquisition | (8,466,299) |

The acquired business contributed revenues of \$38,716,983 and profit of \$5,147,699 to the Group from 1 November 2010 to 30 June 2011.

2 (b) Purchase consideration – cash outflow

| | 2011 | 2010 |
|-------------------------------------------------------------|------------|------|
| Outflow of cash to acquire subsidiary, net of cash acquired | | |
| Cash consideration for 64.1% | 46,136,900 | - |
| Less: Balances acquired | | |
| Cash | (541,103) | - |
| Outflow of cash – investing activities | 45,595,797 | - |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 15: Controlled Entities

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

| Controlled Entities Consolidated | Country of Incorporation | Percentage Owned (%)* | |
|---------------------------------------------|--------------------------|-----------------------|--------------|
| | | 30 June 2011 | 30 June 2010 |
| Subsidiaries of Continental Coal Limited: | | | |
| Continental Coal Ltd | South Africa | 74 | 74 |
| Subsidiaries of Continental Coal Ltd | | | |
| Tsimpilo Trading 45 (Pty) Limited | South Africa | 100 | 100 |
| Taboo Trading 137 (Pty) Ltd | South Africa | 100 | 100 |
| Idada Trading 310 (Pty) Ltd | South Africa | 70 | - |
| Kebragen (Pty) Ltd | South Africa | 75 | - |
| Ntshovelo Mining Resources (Pty) Ltd (i) | South Africa | 50 | - |
| Ultimatum Challenge Trading (Pty) Ltd | 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

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

Note 16: Exploration Expenditure

NON-CURRENT

Exploration expenditure capitalised

- Exploration and evaluation phases – direct
- Exploration and evaluation phases – in direct (i)

Total exploration expenditure

| Consolidated | |
|--------------|------------|
| 2011 \$ | 2010 \$ |
| | |
| 108,262,385 | 28,645,092 |
| 13,469,841 | 18,943,886 |
| 121,732,226 | 47,588,978 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 16: Exploration Expenditure (cont'd)

(a) Movements in carrying amounts

| | Consolidated | |
|--------------------------------------------------------------------|--------------|-------------|
| | 2011 \$ | 2010 \$ |
| Balance at 1 July | 47,588,978 | 34,713,415 |
| On 64.1% acquisition of Mashala in South Africa | 67,916,854 | - |
| Exploration expenditure capitalised | 20,827,452 | 24,036,555 |
| Exploration expenditure impaired (i) (ii) | (11,855,895) | (1,924,276) |
| Transfers to development expenditure | - | (9,059,226) |
| Impacts of movements in foreign exchange rates on non AUD balances | (2,745,163) | (177,490) |
| Carrying amount at 30 June | 121,732,226 | 47,588,978 |

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

2011

(i) During the 2011 financial year the updated JORC compliant Coal Resource statement and assessment, review and audit of the Company's South African thermal coal projects resulted in a reduction in total resources and measured resources for both the Vaalbank and Project X Coal Projects. The Company is concerned with the discrepancies from earlier independent resource statements and is completing a review of the previous work undertaken by the Company's geological consultants. As a result of these discrepancies the Company has adopted a prudent approach to its valuation of its Coal Projects resulting in an impairment charge of \$11,855,895 (Project X \$10,955,583, Vaalbank \$771,275 and Lemoenfontein \$129,037)

2010

(ii) Impairment from 30 June 2010 Financial Year – Witbank, Uitkomst, Canyon Springs and Loskop created an impairment charge of \$1,924,276.

(b) 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 |
|--------------------|---------------------------------------|-----------------------------------------------|------------------------------------------------------|
| Vlakovarkfontein | 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 | Ultimatum Challenge Trading (Pty) Ltd | Ultimatum Challenge Trading (Pty) Ltd |
| 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 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 16: Exploration Expenditure (cont'd)

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

Consolidated

| Name of company | Listed/ Unlisted | Country of Incorporation | 30 June 2011 | 30 June 2010 | 30 June 2011 | 30 June 2010 |
|--------------------------------------------|---------------------|-----------------------------|------------------|--------------|-----------------|--------------|
| | | | Percentage owned | | Carrying amount | |
| | | | % | % | \$ | \$ |
| Misty Sea 262 (Pty) Ltd | Unlisted | South Africa | 49 | 49 | 13,469,825 | 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 |
| | | | | | 13,469,841 | 18,943,886 |

The company has completed the purchase agreement with Misty Sea (Pty) Ltd relating to the purchase of the prospecting rights for Project X & Vaalbank. The company is awaiting section 11 approval of the transfer of the rights to Idada Trading (Pty) Ltd and Kebragen (Pty) Ltd where the company would have a 70% and 75% shareholding respectively.

Note 17: Development Expenditure

NON-CURRENT

– Development expenditure at cost

Total development expenditure

| Consolidated | |
|--------------|------------|
| 2011 \$ | 2010 \$ |
| 16,498,373 | 9,059,226 |
| 16,498,373 | 9,059,226 |

(a) Movements in carrying amounts

| | | |
|--------------------------------------------------------------------|-------------|------------|
| Balance at 1 July | 9,059,226 | - |
| Acquired development assets | 8,835,750 | |
| On 64.1% acquisition of Mashala in South Africa | 8,868,827 | - |
| Accumulated depreciation on acquisition | (3,880,040) | - |
| Accumulated depreciation for the year | (3,595,345) | - |
| Transfers from exploration expenditure | - | 9,059,226 |
| Impacts of movements in foreign exchange rates on non AUD balances | (2,790,045) | - |
| Carrying amount at 30 June | | 16,498,373 |

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 18: Property, Plant & Equipment

PLANT AND EQUIPMENT

Plant and equipment:

Opening net book amount

On 64.1% acquisition of Mashala in South Africa

Additions

Accumulated depreciation on acquisition

Accumulated depreciation for the year

Impacts of movements in foreign exchange rates on non AUD balances

Total plant and equipment

Total Property, Plant & Equipment

| Consolidated | |
|--------------|------------|
| 2011 \$ | 2010 \$ |
| | |
| 353,010 | 293,779 |
| 6,805,380 | - |
| 1,362,090 | 135,007 |
| (1,969,416) | - |
| (314,708) | (75,776) |
| 64,782 | - |
| 6,301,138 | 353,010 |
| 6,301,138 | 353,010 |

(a) Movements in Carrying Amounts

Consolidated Group:

Balance at 1 July 2009

Additions

Depreciation expense

Balance at 30 June 2010

On 64.1% acquisition of Mashala in South Africa

Additions

Accumulated depreciation on acquisition

Accumulated depreciation for the year

Impacts of movements in foreign exchange rates on non AUD balances

Balance at 30 June 2011

| Plant and Equipment | Land and Buildings | Total |
|------------------------|-----------------------|-------------|
| \$ | \$ | \$ |
| 293,779 | - | 293,779 |
| 135,007 | - | 135,007 |
| (75,776) | - | (75,776) |
| 353,010 | - | 353,010 |
| 4,302,468 | 2,502,912 | 6,805,380 |
| 38,250 | 1,323,840 | 1,362,090 |
| (1,969,416) | - | (1,969,416) |
| (314,708) | - | (314,708) |
| 64,782 | - | 64,782 |
| 2,474,386 | 3,826,752 | 6,301,138 |

(b) Security

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

(ii) The Group has entered into a Coal Supply Agreement with EDF Trading Limited whereby EDF is to pay an advance instalment of USD \$20million, to be paid in two tranches of USD \$15million. The Group has granted EDF security over its South African Mining Venture Refer to Note 21.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 19: Other Financial Assets

| | Consolidated | |
|------------------------------------|--------------|------------|
| | 2011 \$ | 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 ("Ntshovelo") and a 60% economic interest. The additional 10% economic interest is for compensation in respect of managing the project. R16 million (AUD \$2,401,600) was paid during the year. The balance was settled on 25 August 2010.

Note 20: Trade and Other Payables

CURRENT

Unsecured liabilities

| | | |
|-------------------------------------------|------------|------------|
| Trade payables | 13,824,439 | 4,762,409 |
| Option Fee – Lemoenfontein (i) | - | 9,298 |
| Sundry payables and accrued expenses | 857,288 | 2,268,010 |
| Deferred purchase liability (ii) | 19,804,355 | 6,120,000 |
| Accrued interest | 404,822 | 855,029 |
| | 34,890,904 | 14,014,746 |
| Accruals relating to held for sale assets | - | 557,754 |
| | 34,890,904 | 14,572,500 |

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

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

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

The fair value of the option has been reassessed and Management has assessed that the fair value has changed from the previous period.

(ii) Relates to the balance of the acquisition cost of the Vlakvarkfontein Coal mine in 2010 and the balance of the Mashala acquisition in 2011

Risk Exposure

Refer note 36.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 21: Deferred Revenue

Deferred revenue relates to:

30 June 2011 – 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 30 June 2011.

30 June 2010 – the prepayment of the sale of the first 100,000 tonnes of run-of-mine coal from the Vlakvarkfontein coal mine.

Deferred income – current

Deferred income – non-current

Total Deferred income

| Consolidated | |
|--------------|------------|
| 2011 \$ | 2010 \$ |
| 193,060 | 1,606,500 |
| 14,212,160 | - |
| 14,405,220 | 1,606,500 |

Note 22: 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. Refer Statement of Significant Accounting Policies note 1(g).

Mining rehabilitation fund

| Consolidated | |
|--------------|------------|
| 2011 \$ | 2010 \$ |
| 7,986,599 | 2,231,672 |
| 7,986,599 | 2,231,672 |

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

NON-CURRENT

Carrying amount at the start of the year

Additional provision recognised

Carrying amount at the end of the year

| | |
|-----------|-----------|
| 2,231,672 | - |
| 5,754,927 | 2,231,672 |
| 7,986,599 | 2,231,672 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 23: Borrowings

CURRENT

Secured loans from related parties

2010 (i)

Unsecured loans other

2010 (iii) (vi) (vii)

2009 (iv)

Secured loan other

2009 (ii) (v)

Debt facility – secured

2010 (viii)

| Note | Consolidated | |
|--------------|--------------|------------|
| | 2011 \$ | 2010 \$ |
| 34(e) | - | 915,000 |
| | - | 3,121,176 |
| | - | 2,558,696 |
| | - | 13,200,000 |
| | - | 19,794,872 |

2010

(i) Loan is secured with pledge over shares in Vanmag, interest bearing at 10% per annum and repayable on or before 31 December 2010 in South African Rand 6,000,000

(iii) Loan is interest bearing at 10% per annum and repayable on or before 31 December 2010 in USD 2,500,000

(vi) Loan is interest bearing at 12% per annum and repayable on or before 30 June 2011 in AUD 203,000. Part or all of the principal and interest may be converted to equity at the election of the Lender.

(vii) Loan is interest bearing at 10% per annum and repayable on or before 31 December 2010 in AUD 2,558,696

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

NON-CURRENT

Convertible Note – unsecured

| Consolidated | |
|--------------|------------|
| 2011 \$ | 2010 \$ |
| 16,000,000 | - |
| 16,000,000 | - |

The convertible notes have a maturity date of three years from the drawdown date and interest is payable bi-annually in arrears at a rate of 10% per annum. Conversion of the notes is at the rights of the holders.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 24: Issued capital

3,192,640,409 (2010: 1,376,191,741) fully paid ordinary shares

| Consolidated | |
|--------------|-------------|
| 2011 \$ | 2010 \$ |
| 190,068,112 | 100,829,337 |
| 190,068,112 | 100,829,337 |

(a) Movement 2011

| | No. | \$ |
|------------------------------------------------------------------------------------------------------------------------------|---------------|--------------|
| Balance at 1 July 2010 | 1,376,191,741 | 100,829,337 |
| Shares issued during year: | | |
| 06/08/10 – Prior year Placement with institutional and sophisticated investors at 5 cents per ordinary fully paid share (i) | 10,333,434 | - |
| 10/08/10 – Tranche 1 Placement with institutional and sophisticated investors at 5.5 cents per ordinary fully paid share (i) | 200,000,000 | 11,000,000 |
| 10/09/10 – Tranche 2 Placement with institutional and sophisticated investors at 5.5 cents per ordinary fully paid share (i) | 200,000,000 | 11,000,000 |
| 20/09/10 – issued pursuant to Share Purchase Plan at 5.5 cents per ordinary fully paid share (ii) | 290,909,090 | 16,000,000 |
| 26/10/10 – Tranche 1 Placement with institutional and sophisticated investors at 6.4 cents per ordinary fully paid share (i) | 200,000,000 | 12,280,000 |
| 19/11/10 – Tranche 2 Placement with institutional and sophisticated investors at 6.4 cents per ordinary fully paid share (i) | 275,950,000 | 17,660,800 |
| 20/12/10 – conversion of debt to equity to related parties at 5.5 cents per ordinary fully paid share (iii) | 77,090,996 | 4,240,005 |
| 20/12/10 – conversion of debt to equity at an average of 5.25 cents per ordinary fully paid share (iii) | 110,789,171 | 5,617,114 |
| 20/12/10 – introduction and capital raising fees at an average of 7.4 cents per ordinary fully paid share (iv) | 92,213,796 | 5,323,123 |
| 20/12/10 – issued to consultants at 6.4 cents per ordinary fully paid share (v) | 11,868,125 | 759,560 |
| 24/12/10 – Facilitation fee for coal project funding at 5.8 cents per ordinary share (vi) | 60,000,000 | 3,500,000 |
| 26/10/10, 20/12/10 and 19/01/10 – Conversion of \$11.35m debt facility at 5 cents per ordinary share (vii) | 227,000,000 | 11,350,000 |
| 20/12/10 – Conversion of \$4.8m convertible note at 8 cents per ordinary share (viii) | 60,000,000 | 4,800,000 |
| 10/12/10 and 20/12/10 – Issue of ordinary fully paid shares on exercise of options | 294,056 | 14,702 |
| Less share issue costs | - | (14,826,529) |
| Balance at 30 June 2011 | 3,192,640,409 | 190,068,112 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 24: Issued capital (cont'd)

- (i) During the year, the Group offered various placements to institutional and sophisticated investors to secure and develop the Group's South African Coal assets, acquire 64.1% of Mashala and working capital.
- (ii) As approved by shareholders at the Group's General Meeting on 10 September 2010, 290,909,090 ordinary fully paid shares were issued pursuant to the Group's Share Purchase Plan.
- (iii) During the year, the Group extinguished several loans by means of conversion of debt to equity.
- (iv) During the year, the Group issued ordinary fully paid shares in lieu of introduction and capital raising fees.
- (v) During the year, the Group issued ordinary fully paid shares as consideration for services provided to the Group.
- (vi) As approved by shareholders at the Group's General Meeting on 29 June 2011, 60,000,000 ordinary fully paid shares were issued pursuant to a facilitation agreement.
- (vii) During the year, the Group converted the balance of its debt facility by issue of ordinary fully paid shares at the election of the instrument holder.
- (viii) As approved by shareholders at the Group's Annual General Meeting on 10 September 2010, the Group converted part of its convertible note facility.

(b) Movement 2010

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 24: Issued capital (cont'd)

(b) Movement 2010 (cont'd)

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

(c) Ordinary shares

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

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

(d) Options

Information relating to share options on hand at the financial year are detailed below.

| Expiry Date | Exercise Price | Number of Options |
|--------------|----------------|----------------------|
| 19/10/2011 | \$0.15 | 60,000,000 |
| 19/10/2011 | \$0.20 | 60,000,000 |
| 13/02/2013 | \$0.05 | 689,443,306 |
| 16/07/2016 | \$0.05 | 40,000,000 |
| 10/07/2016 | \$0.10 | 40,000,000 |
| 31/10/2015 | \$0.064 | 16,275,486 |
| 31/12/2013 | \$0.075 | 100,000,000 |
| TOTAL | | 1,005,718,792 |

(e) Capital Management

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

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

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

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. This strategy is to ensure that the Group's gearing ratio remains between 0% and 20%.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 24: Issued capital (cont'd)

The gearing ratios' for the year ended 30 June 2011 and 30 June 2010 are as follows:

| | Note | Consolidated | |
|--------------------------------|------|--------------|-------------|
| | | 2011 \$ | 2010 \$ |
| Total borrowings | 23 | 16,000,000 | 19,794,870 |
| Less cash and cash equivalents | 9 | (12,050,227) | (39,822) |
| Net debt | | 4,280,704 | 19,755,048 |
| Total capital | | 190,068,112 | 100,829,337 |
| Gearing ratio | | 4% | 20% |

Note 25: Shares and Options to be Issued

The following shares and options were issued post year end and contracted to be issued prior to year end. As a result, this has been treated as an adjusting post reporting date event and so the balances have been taken up in the 30 June 2011 accounts even though they had not been issued at 30 June 2011. The amounts have been classified as equity at 30 June 2011 in accordance with AASB 139, *Financial Instruments: Recognitions and Measurements*.

| | Consolidated | |
|----------------------------------------------------------|--------------|------------|
| | 2011 \$ | 2010 \$ |
| 234,962,406 (2010: 2,759,871) fully paid ordinary shares | 9,917,895 | 90,000 |
| 117,481,203 unlisted options | 4,462,226 | - |
| | 14,380,121 | 90,000 |

| | Consolidated | |
|--------------------------------------------------|--------------|------------|
| | 2011 No. | 2010 \$ |
| Tranche 1 Placement to SOCIUS – ordinary shares | 234,962,406 | 9,917,895 |
| Tranche 1 Placement to SOCIUS – unlisted options | 117,481,203 | 4,462,226 |

| | Consolidated | |
|-------------------------------------------------|--------------|------------|
| | 2011 No | 2010 \$ |
| Consultants fee in relation to Convertible Loan | 2,759,871 | 90,000 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 26: Reserves

(a) Foreign currency translation reserve

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

(b) Share based payment reserve

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

(c) Option reserve

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

Movements

(a) Foreign currency translation reserve

| | |
|----------------------------------------------------------|-------------|
| Balance 1 July 2009 | 234,825 |
| Transfers to reserve during the year | (27,437) |
| Balance 30 June 2010 | 207,388 |
| Currency translation differences arising during the year | (8,931,938) |
| Balance 30 June 2011 | (8,724,550) |

(b) Share based payments reserve

| | |
|-----------------------------------------------------------------------|------------|
| Balance 1 July 2009 | 6,139,814 |
| Transfers to reserve during the year | 12,027,579 |
| Balance 30 June 2010 | 18,167,393 |
| Options issued to Employees and Consultants during the year (Note 32) | 12,979,190 |
| Balance 30 June 2011 | 31,146,583 |

(c) Option reserve

| | |
|--------------------------------------|---------|
| Balance 1 July 2009 | 652,602 |
| Transfers to reserve during the year | - |
| Balance 30 June 2010 | 652,602 |
| Movement in current year | - |
| Balance 30 June 2011 | 652,602 |

| | |
|-----------------------------------|------------|
| Total Reserves as at 30 June 2011 | 23,074,636 |
| Total Reserves as at 30 June 2010 | 19,027,383 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 28: Capital, Leasing and Other Commitments

(a) Capital expenditure commitments

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

Intangible assets payable

Payable:

Up to 12 months

Between 12 months and 5 years

| Consolidated | |
|----------------|----------------|
| 2011 AUD \$ | 2010 AUD \$ |
| 38,330,006 | 4,196,375 |
| 38,330,006 | 4,196,375 |
| 9,166,122 | - |
| 29,163,884 | 4,196,375 |
| 38,330,006 | 4,196,375 |

Summary in South African Rand

| | Delta PDC | Ferreira | Projects | Admin | Vlakovarkfontein | Total |
|--------------------------------|------------------|------------------|--------------------|----------------|------------------|--------------------|
| Projects | | | | | | |
| – De Wittekrans | - | - | 15,718,135 | - | - | 15,718,135 |
| – Penumbra | - | - | 211,485,749 | - | - | 211,485,749 |
| – Botswana | - | - | 14,704,320 | - | - | 14,704,320 |
| – Wolvenfontein | - | - | 10,000,000 | - | - | 10,000,000 |
| – Vlakplats | - | - | 14,535,520 | - | - | 14,535,520 |
| Total Projects | - | - | 266,443,724 | - | - | 266,443,724 |
| Operational | | | | | | |
| – Vlakovarkfontein | - | - | - | - | 6,825,000 | 6,825,000 |
| – Computer equipment | - | - | - | - | - | - |
| – Operations | 24,000 | - | - | 305,000 | - | 329,000 |
| – Ferreira – SANRAL | - | 1,157,364 | - | - | - | 1,157,364 |
| – Materials handling equipment | 3,200,000 | - | - | - | - | 3,200,000 |
| Total Operational | 3,224,000 | 1,157,364 | - | 305,000 | 6,825,000 | 11,511,364 |
| Total Commitments | 3,224,000 | 1,157,364 | 266,443,724 | 305,000 | 6,825,000 | 277,955,088 |

Penumbra mine development

The directors have successfully concluded the agreement with ABSA Capital regarding the debt funding for the Development of the Penumbra Coal Mine. The debt funding, related coal, foreign exchange and interest risk management facilities have all been finalised.

The offer of finance comprises a seven year term loan facility of R26m to be made available to fund the development of the Penumbra Mine. A secured 3 year term loan facility to be made available to refinancing existing secured indebtedness under the EDF Coal Prepayment. A secured annually renewable working capital of R100m to fund general corporate working capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

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

(b) Operating lease commitments

Operating lease payments

Premises: Contractual amounts

Wash Plant: Contractual amounts

| 2011 AUD \$* | 2010 AUD \$ |
|-------------------|----------------|
| 689,077 | 250,797 |
| 12,099,129 | 5,717 |
| 12,788,206 | 256,514 |

Estimated operating lease payments for the following periods are:

Year 1

Year 2 – 5

| | |
|-------------------|----------------|
| 4,046,592 | 318,920 |
| 8,741,614 | 670,836 |
| 12,788,206 | 989,757 |

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

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

The lease commitment for the group relates to the lease of the wash plant from Fraser Alexander Mineral Processing where the agreement commenced on 1 September 2009 for a period of 60 months. The monthly payments are dependent on the capacity processed by the plant each month. The lease commitments have therefore been based on the following table and the current capacity of 118 000 tons per month:

| Capacity (Tons) | Variable cost (Rand) | Fixed cost (Rand) | Lease payment (Rand) |
|--------------------|-------------------------|----------------------|-------------------------|
| 27,500 | 6.07 | 1,300,700 | 1,497,625 |
| 70,000 | 6.07 | 1,435,500 | 1,860,400 |
| 118,000 | 6.07 | 1,592,646 | 2,308,906 |
| 150,000 | 6.07 | 1,731,600 | 2,642,100 |

No restrictions were placed upon the group and company by entering into the lease agreements and they contain no contractual rights of renewal.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 29: Contingent Liabilities and Contingent Assets

- A royalty arrangement is in place with respect to the Group's \$20m debt facility instrument equating to US\$1 per tonne, 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 30: Segment Reporting

(a) Description of segments

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

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

(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 2011 is as follows:

| 2011 | Coal SA | Vanadium & Magnetite SA | Corporate Costs | Consolidated |
|----------------------------------------------|--------------|-------------------------|-----------------|--------------|
| | \$ | \$ | \$ | \$ |
| Total segment revenue | 60,657,175 | - | 601,971 | 61,259,146 |
| EBITDA | (13,658,812) | - | (13,211,238) | (26,870,050) |
| Total segment assets as at 30 June 2011 | 162,118,254 | 10,066,136 | 7,066,010 | 179,581,330 |
| Total segment liabilities as at 30 June 2011 | 55,791,097 | - | 18,559,170 | 74,350,267 |

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 30: 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:

| | Consolidated | |
|---------------------------------------------------|--------------|--------------|
| | 2011 \$ | 2010 \$ |
| Adjusted EBITDA | (26,870,050) | (15,143,711) |
| Interest revenue | 439,277 | 14,632 |
| Finance costs | (11,109,126) | (12,254,969) |
| Depreciation | (4,309,746) | (77,430) |
| Loss before income tax from continuing operations | (41,849,645) | (27,461,478) |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 31: Cash Flow Information

(a) Reconciliation of Cash Flow from Operations with Profit/(loss) after Income Tax

| | Consolidated | |
|----------------------------------------------------|--------------|--------------|
| | 2011 \$ | 2010 \$ |
| Profit/(loss) after income tax | (41,849,645) | (27,461,479) |
| Non-cash flows in profit | | |
| Depreciation | 4,309,746 | 77,430 |
| Impairment of exploration expenditure | 11,855,895 | 1,924,276 |
| Net gain on sale of assets | (18,563) | - |
| Gain on acquisition of Mashala | (8,466,299) | - |
| Borrowing costs | 11,109,126 | - |
| Share based payment expenses | 12,740,884 | 8,436,747 |
| Reversal of share based payments | (225,477) | - |
| Foreign exchange differences | 5,332,427 | - |
| Increase/(decrease) in inventory | (4,281,873) | - |
| Increase/(decrease) in trade and other payables | 6,695,905 | 1,847,410 |
| Increase/(decrease) in provisions | (1,194,897) | 2,231,672 |
| (Increase)/decrease in trade and other receivables | (4,722,697) | 646,106 |
| Increase/(decrease) in prepayments | 34,692 | 3,970,426 |
| (Increase)/decrease in deferred revenue | 12,605,660 | 1,606,500 |
| Cash flow (used in) operations | 3,924,884 | (986,912) |

(b) Non-cash financing and investing activities

Non-cash financing and investing activities have been disclosed in Note 32.

(c) Credit Standby Arrangements with Banks

There were no credit standby arrangements with the banks for year ended 30 June 2011.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 32: Share-based Payments

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

| Quantity | Security | \$ Value | Purpose |
|-------------|------------------------------------------------------|------------|-----------------------------------------------------------|
| 100,000,000 | \$0.075 unlisted director options (31 December 2013) | 3,544,064 | Director incentive options |
| 16,275,486 | \$0.064 unlisted warrant options (31 October 2015) | 792,688 | Placement financing options |
| 40,000,000 | \$0.05 unlisted EDF options (16 July 2016) | 2,144,440 | Pursuant to Coal Supply Agreement |
| 40,000,000 | \$0.10 unlisted EDF options (16 July 2016) | 1,827,166 | Pursuant to Coal Supply Agreement |
| 187,880,167 | Fully paid ordinary shares | 9,857,119 | Repayment of debt, including interest payable |
| 104,081,921 | Fully paid ordinary shares | 6,082,683 | Issued in lieu of introduction and capital raising fees |
| 60,000,000 | Fully paid ordinary shares | 3,500,000 | Facilitation fee for coal project funding |
| 227,000,000 | Fully paid ordinary shares | 11,350,000 | Reduction of Debt Facilities, including interest payable |
| 60,000,000 | Fully paid ordinary shares | 4,800,000 | Reduction of Convertible Note, including interest payable |
| 117,481,203 | \$0.044 unlisted options (unissued at 30 June 2011) | 4,462,226 | Placement financing options |

At the date of this report the company the Group had committed to issuing a further 149,508,928 options that have not been included in the above, nor in the total options below.

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

The following share based payment arrangements from prior periods existed at 30 June 2011:

| | 2011 | | 2010 | |
|------------------------------------------|-------------------|------------------------------------|-------------------|------------------------------------|
| | Number of Options | Weighted Average Exercise Price \$ | Number of Options | Weighted Average Exercise Price \$ |
| Outstanding at the beginning of the year | 678,093,719 | 0.075 | 250,800,000 | 0.145 |
| Granted | 464,919,129 | 0.05 | 549,093,719 | 0.05 |
| Forfeited | (5,000,000) | | (5,000,000) | 0.05 |
| Exercised | (132,294,056) | 0.05 | (68,000,000) | 0.05 |
| Expired | - | | (48,800,000) | 0.18 |
| Outstanding at year end | 1,005,718,792 | | 678,093,719 | 0.075 |
| Exercisable at year end | 1,005,718,792 | | 654,093,719 | 0.075 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 32: Share-based Payments (cont'd)

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

| No. of Options Granted | Fair value per option | Exercise price | Price of shares on grant date | Expected volatility annualised | Risk free interest rate | Dividend yield |
|---------------------------|--------------------------|----------------|----------------------------------|--------------------------------------|----------------------------|-------------------|
| 40,000,000 | \$0.05 | \$0.05 | \$0.071 | 79% | 5.11% | - |
| 40,000,000 | \$0.05 | \$0.10 | \$0.071 | 79% | 5.11% | - |
| 16,275,486 | \$0.05 | \$0.064 | \$0.071 | 79% | 5.11% | - |
| 100,000,000 | \$0.04 | \$0.075 | \$0.068 | 79% | 5.20% | - |
| 60,000,000 | \$0.009 | \$0.20 | \$0.04 | 90% | 4.25% | - |
| 60,000,000 | \$0.011 | \$0.15 | \$0.04 | 90% | 4.25% | - |
| 9,000,000 | \$0.021 | \$0.10 | \$0.06 | 70% | 3.93% | - |

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

Note 33: Events occurring after the reporting date

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

- Successful completion of tranche 1 of a placement to Socius CG 11 of 234,962,406 new shares at an issue price of A\$0.043 per share to raise US\$10 million (before issue costs). The placement was completed at a premium of 12% to the closing price on 30 June 2011. In addition the Group has issued Socius with 117,481,203 unlisted 5 year warrant options.
- Successful completion of tranche 2 of a placement to Socius CG 11 of 279,017,857 new shares at an issue price of A\$0.03584 per share to raise US\$10 million (before issue costs). The placement was completed at a premium of 12% to the closing price on 18 August 2011. In addition the Group has issued Socius with 139,508,928 unlisted 5 year warrant options.
- Payment of AU\$5.4m to minorities of Mashala Resources (Pty) Limited to increase the Group's South African Subsidiary shareholding from 64.1% to 73.3%.
- Share Consolidation of every ten (10) shares consolidated into one (1) share and every ten (10) options consolidated into one (1) option as approved by shareholders on 29 June 2011 completed on 9 September 2011.
- Admission of the Group's ordinary shares to trade on the London Stock Exchange's AIM Market on 19 September 2011 (**AIM Code: COOL**).
- US\$65M in funding secured with ABSA Capital for Penumbra mine development was obtained on 14th September 2011.
- 10,000,000 unlisted \$0.075 options were issued to director, James Leahy on 1 July 2011. The fair value of these options on grant date was \$0.038 per option.

Note 34: Related Party Transactions

(a) Parent entities

The parent entity within the Group is Continental Coal Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 15.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 34: Related Party Transactions (cont'd)

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 6.

(d) Transactions with related parties

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

| | Consolidated | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|------------|
| | 2011 \$ | 2010 \$ |
| Consulting fees paid to Okap Ventures Pty Ltd, a company in which Mr Landau is a director, for the provision of strategic and corporate advisory, capital raising, company secretarial, financial management, investor and public relations and associated services in fully serviced offices in both Perth and London | 660,000 | 600,000 |
| Consulting fees paid or payable to Doull Holdings Pty Ltd, a company in which Mr Landau is a Director, for the provision of Mr Landau as an Executive Director. | 163,500 | 164,863 |
| Consulting fees paid or payable to Scooby Holdings Pty Ltd, a company in which Mr Brewer is a Director, for the provision of Mr Brewer as an Executive Director. | 112,500 | - |
| Consulting fees paid or payable to Masawu investments (Pty) Ltd, a nominee company of Mr Buthelezi, for services rendered by his consulting company to South African subsidiary. | 145,100 | 270,180 |
| Consulting fees paid or payable to Ingwe Investments Limited, a nominee company of Mr Macaulay, for services rendered by his consulting company to South African subsidiary. | 235,207 | - |
| Consulting fees paid or payable to Horizon Mining and Exploration, a nominee company of Mr Macaulay, for services rendered by his consulting company to South African subsidiary. | - | 116,177 |
| Consulting fees paid or payable to Firefly Global Holdings Limited, a nominee company of Mr Macaulay, for services rendered by his consulting company to South African subsidiary. | - | 453,900 |
| Consulting fees paid or payable to Affinity Properties (Pty) Ltd, a nominee company controlled by Mr Buthelezi's wife, for rent recouped by the South African subsidiary. | - | 29,928 |
| Consulting fees paid or payable to M van der Poel for services rendered by his consulting company to South African subsidiary. | - | 152,291 |
| Amounts payable at year end to related parties: | | |
| Okap Ventures Pty Ltd | 369,813 | 962,262 |
| Doull Holdings Pty Ltd | 59,950 | 44,963 |
| Scooby Holdings Pty Ltd | 41,250 | - |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 34: Related Party Transactions (cont'd)

(e) Loans from other related parties

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

In September 2010 the loan and interest was repaid in full by converting the debt to equity with the issue of 19,973,777 ordinary shares in the Group

| | Consolidated | |
|--------------------|--------------|------------|
| | 2011 \$ | 2010 \$ |
| Balance at 1 July | 1,107,290 | 1,046,178 |
| Interest charged | 37,465 | 192,290 |
| Loan revalued | (37,505) | (131,178) |
| Repaid in equity | (1,107,250) | |
| Balance at 30 June | - | 1,107,290 |

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

Consolidated

| Related party | Transaction type | 2011 Outstanding balance | 2010 Outstanding balance |
|-----------------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Loan from A Macaulay | Loan from shareholder/director | - | 89,296 |
| Loan from MB Buthelezi | Loan from shareholder/director | - | 9,652 |
| Loan from Mbuvelo Investments (Pty) Ltd | Loan from shareholder/director | - | 86,743 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 35: Parent Entity Information

The following details information related to the parent entity Continental Coal Limited, at 30 June 2011. The information presented here has been prepared in accordance using consistent accounting policies as presented in Note 1.

| | 2011 \$ | 2010 \$ |
|----------------------------------------|--------------|--------------|
| Current assets | 133,369,506 | 11,874,098 |
| Non-current assets | 33,040,792 | 65,802,813 |
| Total assets | 166,410,298 | 77,676,911 |
| Current liabilities | 2,559,170 | 22,709,999 |
| Non-current liabilities | 16,000,000 | - |
| Total liabilities | 18,559,170 | 22,709,999 |
| Contributed equity | 190,068,112 | 100,829,337 |
| Shares and options to be issued | 14,380,121 | 90,000 |
| Retained earnings / accumulated losses | (88,396,289) | (64,872,419) |
| Option premium reserve | 5,467,576 | 652,602 |
| Share based payment reserve | 26,331,608 | 18,167,392 |
| Total equity (i) | 147,851,128 | 54,966,912 |
| Loss for the year | (23,630,393) | (12,558,778) |
| Total comprehensive loss for the year | (23,630,393) | (12,558,778) |

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

Note 36: Financial Risk Management

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 36: Financial Risk Management (cont'd)

The Group holds the following financial instruments:

| | Consolidated | |
|-------------------------------------|--------------|------------|
| | 2011 \$ | 2010 \$ |
| Financial assets | | |
| Cash and cash equivalents | 12,050,227 | 39,822 |
| Trade and other receivables | 7,969,914 | 131,062 |
| Available for sale financial assets | - | 113,437 |
| Other financial assets | - | 8,835,750 |
| | 20,020,141 | 9,120,071 |
| Financial liabilities | | |
| Trade and other payables | 34,890,904 | 15,682,501 |
| Borrowings | 16,000,000 | 19,794,870 |
| | 50,890,904 | 35,477,371 |

Significant Accounting Policies

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

Net fair value

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

(i) Financial Risk Exposures and Management

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

(a) Credit risk

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

Cash and cash equivalents

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

Trade and other receivables

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 36: Financial Risk Management (cont'd)

Exposure to Credit Risk

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

Impairment Losses

None of the Group's other receivables are past due (2010: nil).

(b) Liquidity Risk Management

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

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

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

The following are the contractual maturities of financial liabilities

| 2011 | Carrying amount | Principle & Interest | 6 months or less | 6-12 months | 1-2 years | 2-5 years |
|-----------------------------|--------------------|-------------------------|---------------------|-------------|-----------|------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Consolidated | | | | | | |
| Trade and other payables | 34,890,904 | 34,890,904 | 34,890,904 | - | - | - |
| Borrowings interest bearing | 16,000,000 | 16,000,000 | - | - | - | 16,000,000 |
| | 50,890,904 | 50,890,904 | 34,890,904 | - | - | 16,000,000 |

| 2010 | Carrying amount | Principle & Interest | 6 months or less | 6-12 months | 1-2 years | 2-5 years |
|-----------------------------|--------------------|-------------------------|---------------------|-------------|-----------|-----------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Consolidated | | | | | | |
| Trade and other payables | 15,682,501 | 15,682,501 | 15,682,501 | - | - | - |
| Borrowings interest bearing | 19,794,872 | 20,289,744 | 20,289,744 | - | - | - |
| | 35,477,373 | 35,972,245 | 35,972,245 | - | - | - |

(c) Market Risk

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

(d) Currency Risk

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 36: Financial Risk Management (cont'd)

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

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

Exposure to Currency Risk

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

| | Consolidated | | | |
|---------------------------|--------------|---------------|--------------|--------------|
| | 30 June 2011 | | 30 June 2010 | |
| | USD | ZAR` | USD | ZAR |
| Cash and Cash equivalents | - | 34,187,588 | - | 5,612 |
| Receivables | - | 57,571,583 | - | 130,052 |
| Borrowings | - | - | (2,918,174) | (124,470) |
| Trade payables | - | (239,362,509) | - | (11,293,469) |
| Other payables | - | (104,461,349) | - | - |
| | - | (252,064,687) | (2,918,174) | (11,282,275) |

Sensitivity Analysis

A 10 percent strengthening of the Australian Dollar against the following currencies at 30 June 2011 would have increase/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010. 10 percent is management's assessment of the possible change in foreign exchange rates based on historical information.

| | Equity | | Profit or Loss | |
|--------------|-------------|-----------|----------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$ | \$ | \$ | \$ |
| Consolidated | | | | |
| USD (i) | - | (248,716) | - | (248,716) |
| ZAR (ii) | (2,035,450) | (172,619) | (2,035,450) | (172,619) |
| | (2,035,450) | (421,335) | (2,035,450) | (421,335) |

A 10 percent weakening of the Australian Dollar against the above currencies at 30 June 2011 would have an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(i) This is attributable to the exposure to the USD denominated Loan.

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

Foreign exchange risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 36: Financial Risk Management (cont'd)

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

(e) Interest rate risk

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

(f) Fair value measurements

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

Fair value measurements by level of the following fair value measurement hierarchy:

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

| 2011 | Level 1 \$ | Level 2 \$ | Level 3 \$ | Total \$ |
|-------------------------------------|---------------|---------------|---------------|-------------|
| Assets | | | | |
| Available for sale financial assets | | | | |
| Equity securities | - | - | - | - |
| Total assets | - | - | - | - |

| 2010 | Level 1 \$ | Level 2 \$ | Level 3 \$ | Total \$ |
|-------------------------------------|----------------|---------------|---------------|----------------|
| Assets | | | | |
| Available for sale financial assets | | | | |
| Equity securities | 113,437 | - | - | 113,437 |
| Total assets | 113,437 | - | - | 113,437 |

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 36: Financial Risk Management (cont'd)

Financial Instrument Composition and Maturity Analysis

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

| Consolidated | Weighted Average Effective Interest Rate | | Floating Interest Rate | | Fixed Interest Maturing | | Non-interest bearing | | Total | |
|-------------------------------------|------------------------------------------|--------|------------------------|---------|-------------------------|------------|----------------------|------------|------------|------------|
| | 2011 % | 2010 % | 2011 \$ | 2010 \$ | 2011 \$ | 2010 \$ | 2011 \$ | 2010 \$ | 2011 \$ | 2010 \$ |
| Financial Assets: | | | | | | | | | | |
| Cash and cash equivalents | 5% | 5% | 12,050,227 | 39,822 | - | - | - | - | 12,050,227 | 39,822 |
| Receivables | | | - | - | - | - | 7,969,914 | 890,877 | 7,969,914 | 890,877 |
| Available-for-sale financial assets | - | - | - | - | - | - | 113,437 | 113,437 | - | 113,437 |
| Other financial assets | | | - | - | - | - | - | 8,835,750 | - | 8,835,750 |
| Total Financial Assets | | | 12,050,227 | 39,822 | - | - | 7,969,914 | 9,840,064 | 20,020,141 | 9,879,886 |
| Financial Liabilities: | | | | | | | | | | |
| Trade and sundry payables | | | - | - | - | - | 34,890,904 | 17,852,918 | 34,890,904 | 17,852,918 |
| Amounts payable to related parties | | 10% | - | - | - | 915,000 | - | - | - | 915,000 |
| Borrowings | 10% | 10% | - | - | 16,000,000 | 18,879,872 | - | - | 16,000,000 | 18,879,872 |
| Total Financial Liabilities | | | - | - | 16,000,000 | 19,794,872 | 34,890,904 | 17,852,918 | 50,890,904 | 37,647,790 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 36: Financial Risk Management (cont'd)

Fair value sensitivity analysis for fixed rate investments

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

An increase/(decrease) of 100 basis points in interest rates would have increased/(decreased) the Group's equity by A\$351,489 (2010: \$197,949)

Cash flow sensitivity analysis for variable rate investments

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

Consolidated

Variable rate instruments

| Profit or Loss | |
|----------------|------------|
| 2011 \$ | 2010 \$ |
| 2,918 | 6,172 |
| 2,918 | 6,172 |

(g) Price Risk

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

Note 37: New Accounting Standards and Interpretations

Australian Accounting Standards/Amendments Released But Not Yet Effective: 30 June 2011 Year End

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for financial year ended 30 June 2011. They have not been adopted in preparing the financial statements for the year ended 30 June 2011 and are expected to impact the consolidated entity in the initial period of application. In all cases the entity intends to apply these standards from the date of application as indicated below.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 37: New Accounting Standards and Interpretations (cont'd)

| AASB reference | Title and Affected Standard(s): | Nature of Change | Application date/ Effective date | Impact on Initial Application |
|------------------------------------------------------------|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AASB 9 (issued December 2009 and amended December 2010) | Financial Instruments | <p>Amends the requirements for classification and measurement of financial assets.</p> <p>The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9. These include the requirements relating to:</p> <ul style="list-style-type: none"> • Classification and measurement of financial liabilities; and • Derecognition requirements for financial assets and liabilities. <p>However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.</p> | Periods beginning on or after 1 January 2013 | Due to the recent release of these amendments and that adoption is only mandatory for the 31 December 2013 year end, the entity has not yet made an assessment of the impact of these amendments. |
| AASB 10 (issued August 2011) | Consolidated Financial Statements | <p>Introduces a single 'control model' for all entities, including special purpose entities (SPEs), whereby all of the following conditions must be present:</p> <ul style="list-style-type: none"> • Power over investee (whether or not power used in practice) • Exposure, or rights, to variable returns from investee • Ability to use power over investee to affect the entity's returns from investee. | Annual reporting periods commencing on or after 1 January 2013 | When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the entity does not have any special purpose entities. |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 37: New Accounting Standards and Interpretations (cont'd)

| AASB reference | Title and Affected Standard(s): | Nature of Change | Application date/ Effective date | Impact on Initial Application |
|-------------------------------------|-----------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AASB 11 (issued August 2011) | Joint Arrangements | <p>Joint arrangements will be classified as either 'joint operations' (where parties with joint control have rights to assets and obligations for liabilities) or 'joint ventures' (where parties with joint control have rights to the net assets of the arrangement).</p> <p>Joint arrangements structured as a separate vehicle will generally be treated as joint ventures and accounted for using the equity method (proportionate consolidation no longer allowed).</p> | Annual reporting periods commencing on or after 1 January 2013 | When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements. |
| AASB 13 (issued September 2011) | Fair Value Measurement | Currently, fair value measurement requirements are included in several Accounting Standards. AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements. | Annual reporting periods commencing on or after 1 January 2013 | When this standard is adopted for the first time on 1 July 2013, additional disclosures will be required about fair values. |
| AASB 2011-9 (issued September 2011) | Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income | <p>Amendments to align the presentation of items of other comprehensive income (OCI) with US GAAP.</p> <p>Various name changes of statements in AASB 101 as follows:</p> <ul style="list-style-type: none"> 1 statement of comprehensive income – to be referred to as 'statement of profit or loss and other comprehensive income' 2 statements – to be referred to as 'statement of profit or loss' and 'statement of comprehensive income'. <p>OCI items must be grouped together into two sections: those that could subsequently be reclassified into profit or loss and those that cannot.</p> | Annual periods commencing on or after 1 July 2012 | When this standard is first adopted for the year ended 30 June 2013, there will be no impact on amounts recognised for transactions and balances for 30 June 2013 (and comparatives). However, the statement of comprehensive income will include name changes and include subtotals for items of OCI that can subsequently be reclassified to profit or loss in future (e.g. foreign currency translation reserves) and those that cannot subsequently be reclassified (e.g. fixed asset revaluation surpluses). |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 37: New Accounting Standards and Interpretations (cont'd)

| AASB reference | Title and Affected Standard(s): | Nature of Change | Application date/ Effective date | Impact on Initial Application |
|------------------------------------|-------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AASB 124 (issued December 2009) | Related Party Disclosures | Simplifies disclosure requirements for government-related entities and clarifies the definition of a related party. | Annual reporting periods commencing on or after 1 January 2011. | As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, various disclosures currently required by government entities about related party transactions with other entities that are controlled, or significantly influenced by the same government entity will no longer be required if it is costly to gather and of less value to users. |
| AASB 12 (issued August 2011) | Disclosure of Interests in Other Entities | Combines existing disclosures from AASB 127 Consolidated and Separate Financial Statements, AASB 128 Investments in Associates and AASB 131 Interests in Joint Ventures. Introduces new disclosure requirements for interests in associates and joint arrangements, as well as new requirements for unconsolidated structured entities. | Annual reporting periods commencing on or after 1 January 2013 | As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required for interests in associates and joint arrangements, as well as for unconsolidated structured entities. |
| AASB 7 | Financial Instruments: Disclosures | Deletes various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held. | Periods commencing on or after 1 January 2011 | There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer disclosures only. |
| AASB 101 | Presentation of Financial Statements | A detailed reconciliation of each item of other comprehensive income may be included in the statement of changes in equity or in the notes to the financial statements. | Periods commencing on or after 1 January 2011 | There will be no impact on initial adoption of this amendment as a detailed reconciliation of each item of other comprehensive income has always been included in the statement of changes in equity. |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Note 37: New Accounting Standards and Interpretations (cont'd)

| AASB reference | Title and Affected Standard(s): | Nature of Change | Application date/ Effective date | Impact on Initial Application |
|------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AASB 2010-6 (issued November 2010) | Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets | Additional disclosures required for entities that transfer financial assets, including information about the nature of financial assets involved and the risks associated with them. | Annual reporting periods commencing on or after 1 July 2011 | As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. |
| AASB 1054 (issued May 2011) | Australian Additional Disclosures | Moves additional Australian specific disclosure requirements for for-profit entities from various Australian Accounting Standards into this Standard as a result of the Trans-Tasman Convergence Project. Removes the requirement to disclose each class of capital commitment and expenditure commitment contracted for at the end of the reporting period (other than commitments for the supply of inventories). | Annual reporting periods commencing on or after 1 July 2011 | When this Standard is adopted for the first time for the year ended 30 June 2012, the financial statements will no longer include disclosures about capital and other expenditure commitments as these are no longer required by AASB 1054. |

Note 38: Group Details

The registered office of the Group is:

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

The principal place of business is:

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

DIRECTORS DECLARATION

The directors of the Group declare that:

1. the financial statements comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes, are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001 and other mandatory reporting requirements; and
 - (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date.
2. The consolidated entity has included in the notes to the financial statements an explicit and unreserved statement of Compliance with International Financial Reporting Standards.
3. In the director's opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
4. The remuneration disclosures included in the directors report (as part of audited Remuneration Report) for the year ended 30 June 2011, comply with section 300A of the *Corporations Act 2001*.
5. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

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



Jason Brewer
Executive Director

Dated this 30th day of September 2011

INDEPENDENT AUDIT REPORT



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Australia

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

Report on the Financial Report

We have audited the accompanying financial report of Continental Coal Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

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

INDEPENDENT AUDIT REPORT



Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, 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.

Opinion

In our opinion:

- (a) the financial report of Continental Coal Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Continental Coal Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

A handwritten signature in black ink, appearing to read 'Glyn O'Brien', written over the printed name.

Glyn O'Brien

Director

Perth, Western Australia

Dated this 30th day of September 2011

ASX ADDITIONAL INFORMATION

Shareholdings

The issued capital of the Company as at 27 September 2011 is 378,970,248 ordinary fully paid shares. There are 76,853,740 listed options (\$0.05, 13 February 2013).

| Ordinary Shares at 27 September 2011 | No. of Holders | No. of Shares |
|----------------------------------------------|----------------|---------------|
| 1 – 1,000 | 1,331 | 864,674 |
| 1,001 – 5,000 | 4,114 | 12,600,136 |
| 5,001 – 10,000 | 2,870 | 23,779,082 |
| 10,001 – 100,000 | 4,656 | 147,689,850 |
| 100,001 – 9,999,999,999 | 483 | 194,036,506 |
| | 13,454 | 378,970,248 |
| Number holding less than a marketable parcel | 3,295 | 4,586,444 |

| Options (\$0.05, 13 February 2013) at 27 September 2011 | No. of Holders | No. of Options |
|---------------------------------------------------------|----------------|----------------|
| 1 – 1,000 | 24 | 16,327 |
| 1,001 – 5,000 | 163 | 574,093 |
| 5,001 – 10,000 | 189 | 1,664,780 |
| 10,001 – 100,000 | 615 | 24,194,944 |
| 100,001 and over | 175 | 50,403,596 |
| | 1,166 | 76,853,740 |
| Number holding less than a marketable parcel | 225 | 816,415 |

ASX ADDITIONAL INFORMATION

| Top 20 Shareholders as at 27 September 2011 | No. of Shares Held | % Held |
|----------------------------------------------------------------------------------|--------------------|--------------|
| 1. JP Morgan Nominees Australia Limited <Cash Income A/C> | 26,463,116 | 6.98 |
| 2. Citicorp Nominees Pty Limited | 12,954,270 | 3.42 |
| 3. HSBC Custody Nominees (Australia) Limited | 7,422,373 | 1.96 |
| 4. Satori International Pty Ltd | 5,364,117 | 1.42 |
| 5. National Nominees Limited | 4,721,124 | 1.25 |
| 6. Gleneagle Securities (Aust) | 3,542,584 | 0.93 |
| 7. Mr. James Wallace Hope | 2,645,171 | 0.70 |
| 8. HNC Pty Ltd <The Saggars Super Fund A/C> | 2,481,819 | 0.65 |
| 9. UBS Wealth Management Australia Nominees Pty Ltd | 2,353,197 | 0.62 |
| 10. Mr. James Allan Johnston and Mrs Tammy Nicole Johnston <Johnston Family A/C> | 2,258,000 | 0.60 |
| 11. J & J Bandy Nominees Pty Ltd. <J&J Bandy Super fund A/C> | 2,000,000 | 0.53 |
| 12. Meriwa Street Pty Ltd | 2,000,000 | 0.53 |
| 13. Comsec Nominees Pty Limited | 1,948,791 | 0.51 |
| 14. Mrs. Anna Maria Weldon & Mrs Veronica Maria Morgan | 1,800,000 | 0.47 |
| 15. JP Morgan Nominees Australia Limited | 1,625,704 | 0.43 |
| 16. Pan Australian Nominees Pty Limited | 1,603,198 | 0.42 |
| 17. Vulcan Custodian Limited | 1,492,000 | 0.39 |
| 18. Merrill Lynch (Australia) Nominees Pty Limited | 1,265,016 | 0.33 |
| 19. Forsyth Barr Custodians Ltd <Forsyth Barr Ltd-Nominee A/C> | 1,017,122 | 0.27 |
| 20. Quinlynton Pty Ltd <Purser Super Fund A/C> | 1,007,822 | 0.27 |
| Top 20 holders | 85,965,424 | 22.68 |
| Total Remaining Holders Balance | 293,004,824 | 77.32 |

ASX ADDITIONAL INFORMATION

| Top 20 Option Holders (\$0.05, 13 February 2013) as at 27 September 2011 | No. of Options Held | % Held |
|-------------------------------------------------------------------------------------|---------------------|--------------|
| 1. Mr Ross Edward Gustafson <Vesty Super Fund A/C> | 1,516,375 | 1.97 |
| 2. Mr James Allan Johnston & Mrs Tammy Nicole Johnston <Johnston Family A/C> | 1,500,100 | 1.95 |
| 3. J & J Bandy Nominees Pty Ltd | 1,500,000 | 1.95 |
| 4. Mrs. Deborah Louise | 1,328,500 | 1.73 |
| 5. Mr Patrick Thomas Bergin | 1,200,000 | 1.56 |
| 6. R & C Australia Pty Ltd | 1,000,000 | 1.30 |
| 7. Mr. Ilija Seat | 960,000 | 1.25 |
| 8. Mrs James Wallace Hope | 822,562 | 1.07 |
| 9. Mrs. Gina Clare Fialla | 800,000 | 1.04 |
| 10. Mesuta Pty Ltd | 800,000 | 1.04 |
| 11. Mr. Braham Martin Bassier & Ms Maureen Diane Bassier <Baser Super fund Account> | 608,000 | 0.79 |
| 12. Efflon Pty Ltd | 600,000 | 0.78 |
| 13. Mr. John Alfred Sargeant | 550,000 | 0.72 |
| 14. Mr. James William Hyndes | 522,350 | 0.68 |
| 15. Bromius Capital Limited | 500,000 | 0.65 |
| 16. HNC Pty Ltd | 500,000 | 0.65 |
| 17. Mr Mark Konda & Ms Catherine Hurley | 500,000 | 0.65 |
| 18. The Trust Company | 500,000 | 0.65 |
| 19. Satori International Pty Ltd | 460,000 | 0.60 |
| 20. Mrs Kathryn Anne Harrison <Kathys Future S/F A/C> | 450,000 | 0.59 |
| Top 20 holders | 16,617,887 | 21.62 |
| Total Remaining Holders Balance | 60,235,853 | 78.38 |

| Substantial Shareholders as at 27 September 2011 | No. of Shares Held | % Held |
|--------------------------------------------------------|--------------------|--------|
| JP Morgan Nominees Australia Limited <Cash Income A/c> | 26,463,116 | 6.98 |
| Citicorp Nominees Pty Limited | 12,954,270 | 3.42 |
| HSBC Custody Nominees (Australia) Limited | 7,422,373 | 1.96 |
| Satori International Pty Ltd | 5,364,117 | 1.42 |

CORPORATE GOVERNANCE STATEMENT

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

Principles of Best Practice Recommendations

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

| Best Practice Recommendation | | Comment |
|--------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Lay solid foundations for management and oversight | | |
| 1.1 | Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | Satisfied. Refer the Corporate Governance section on the Group website. |
| 1.2 | Companies should disclose the process for evaluation the performance of senior executives. | Not satisfied. The Group has not yet established formal performance review measures for key executives given the size and stage of the Group's operations. |
| 1.3 | Provide the information indicated in Guide to Reporting on Principle 1. | Satisfied. Refer to Director's report and the Corporate Governance section on the Group website. |
| 2. Structure the board to add value | | |
| 2.1 | A majority of the board should be independent directors. | Not satisfied. There are currently a majority of executive directors on the board (three executive and two non-executive), however the Board believes that it is able to exercise independence and judgement and does possess the necessary skills, expertise and experience required to effectively discharge their duties. The focus has been on the ability of the Board to add value by effectively exercising independence and discharging their duties, rather than on meeting the independence test in the guidelines. |
| 2.2 | The chairperson should be an independent director. | Not satisfied. The chairman of the Board is Executive Chairman. The Group does not currently consider it would benefit from a change from the existing approach given the size of the Group. |
| 2.3 | The roles of chairperson and chief executive officer should not be exercised by the same individual. | Satisfied. The roles of the Chairman and the Chief Executive Officer are exercised by Mr Macaluary and Mr Turvey respectively. |
| 2.4 | The board should establish a nomination committee. | Not satisfied. The Board considers that given the current size of the board, this function is efficiently achieved with full Board participation. Accordingly, the Board has resolved not to establish a nomination committee at this stage. |

CORPORATE GOVERNANCE STATEMENT

| | Best Practice Recommendation | Comment |
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| 2.5 | Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives. | Not satisfied. The Group has not yet established formal performance review measures for key executives nor has it established a nomination committee given the size and stage of the Group's operations. The full Board will review the performance of key executives. |
| 2.6 | Provide the information indicated in Guide to Reporting on Principle 2. | <p>Satisfied. Refer to Director's report and the Corporate Governance section on the Group website.</p> <p>In addition, The Board, Board Committees or individual Directors may seek independent external professional advice as considered necessary at the expense of the Group, subject to prior consultation with the Chairman. A copy of any such advice received is made available to all members of the Board.</p> |
| 3. | <i>Promote ethical and responsible decision-making</i> | |
| 3.1 | <p>Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:</p> <p>(a) the practices necessary to maintain confidence in the group's integrity; and</p> <p>(b) the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders</p> <p>(c) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</p> | Satisfied. Refer the Corporate Governance section on the Group website. |
| 3.2 | Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them. | <p>Not Satisfied. The Company recognises that a talented and diverse workforce is a key competitive advantage and that an important contributor to the Company's success is the quality, diversity and skills of its people.</p> <p>Under the Company's Code of Conduct, employees must not harass, discriminate or support others who harass and discriminate against colleagues or members of the public on the grounds of sex, pregnancy, marital status, age, race (including their colour, nationality, descent, ethnic or religious background), physical or intellectual impairment, homosexuality or transgender. Such harassment or discrimination may constitute an offence under legislation.</p> <p>Due to the current nature and scale of the Company's operations, the Company has not yet established a Diversity Policy. However, as the Company develops the Board will consider adopting such a policy.</p> |

CORPORATE GOVERNANCE STATEMENT

| | Best Practice Recommendation | Comment |
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| 3.3 | Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress in achieving them. | Not Satisfied. Given the size of the Company, the Company has not yet set measurable objectives for achieving gender diversity. In addition, the Board will review progress against any objectives identified on an annual basis. |
| 3.4 | Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board. | Satisfied. There are currently 2 women in senior executive positions within the Company, Ms Flegg as Joint Company Secretary and Ms Hebron as Director and CFO of the South African subsidiary. |
| 3.5 | Provide the information indicated in Guide to Reporting on Principle 3. | Satisfied. Refer the Corporate Governance section on the Group website. |
| 4. | <i>Safeguard integrity in financial reporting</i> | |
| 4.1 | The board should establish an audit committee. | Not Satisfied. The Directors believe that it would not increase efficiency or effectiveness to have a separate audit committee, and that audit matters are of such significance that they should be considered by the full Board. The Board may call on outside consultants if it requires assistance in this area. |
| 4.2 | Structure the audit committee so that it consists of: (a) only non-executive directors; (b) a majority of independent directors; (c) an independent chairperson, who is not chairperson of the board; and (d) at least three members. | Not satisfied. Refer 4.1. |
| 4.3 | The audit committee should have a formal charter. | Not satisfied. Refer 4.1. |
| 4.4 | Provide the information indicated in Guide to Reporting on Principle 4. | Satisfied. Refer to Director's report. |
| 5. | <i>Make timely and balanced disclosure</i> | |
| 5.1 | Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies. | Satisfied. Continuous disclosure policy is available in the Corporate Governance section on the Group website. |
| 5.2 | Provide the information indicated in Guide to Reporting on Principle 5. | Satisfied. Refer 5.1 |
| 6. | <i>Respect the rights of shareholders</i> | |
| 6.1 | Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy. | Satisfied. Communications with Shareholders policy is available in the Corporate Governance section on the Group website. |

CORPORATE GOVERNANCE STATEMENT

| | Best Practice Recommendation | Comment |
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| 6.2 | Provide the information indicated in Guide to Reporting on Principle 6. | Satisfied. Refer to the Group website. |
| 7. | <i>Recognise and manage risk</i> | |
| 7.1 | The Group should establish policies for the oversight and management of material business risks and disclose a summary of those policies. | Satisfied. Risk management policy is available in the Corporate Governance section on the Group website. |
| 7.2 | The Board should design and implement the risk management and internal control system to manage the group's material business risks and report on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Group's management of its material business risks. | Satisfied. Refer 7.1 & 7.3 |
| 7.3 | The board should disclose whether it has received assurances from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | Due to the size and scale of its operations, and the growth of the Company over the financial year the Board as a whole reviews these matters. |
| 7.4 | Provide the information indicated in Guide to Reporting on Principle 7. | Satisfied. Refer 7.1 Not currently applicable. Refer 7.3 |
| 8. | <i>Remunerate fairly and responsibly</i> | |
| 8.1 | The board should establish a remuneration committee. | Not satisfied. The Board considered this recommendation and formed the view that it would not increase efficiency or effectiveness to have a separate committee, and that remuneration matters are of such significance that they should be considered by the full Board. The Board may call on outside consultants if it requires assistance in this area. |
| 8.2 | Clearly distinguish the structure of non-executive directors' remuneration from that of executives. | Details of executive and non-executive remuneration are outlined in the Directors' report. |
| 8.3 | Provide the information indicated in Guide to Reporting on Principle 8. | Satisfied. The Group has incorporated all information as required. |



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