Continental Coal Ltd
ABN 13 009 125 651 ASX Code CCC AIM Code COOL

31 January 2012

# REPORT FOR THE QUARTER ENDING 31 DECEMBER 2011

The Board is pleased to provide the following commentary.

## COMPANY HIGHLIGHTS

- **Total run-of-mine thermal coal production of 474,934 tonnes at the Ferreira and Vlakvarkfontein Coal Mines**
- **Record production of 156,494 tonnes of a high quality export thermal coal product for the Quarter from the Delta Processing Operations**
- **Export thermal coal sales for the Quarter at record levels and increase quarter on quarter by 36% to 178,450 tonnes**
- **Record revenue and earnings of ZAR143m and ZAR21.0m for the Ferreira Coal Mine**
- **Ferreira and Vlakvarkfointein Coal Mines generate record unaudited aggregate EBITDA of ZAR36.9 for the Quarter, a 28% increase on the previous quarter**
- **Development of the Company's third mine, Penumbra Coal continues on budget and schedule with mobilisation of contractor to complete the decline development**
- **Bankable Feasibility Study on the De Wittekrans Coal Project confirms a technically and economically viable project with potential to generate significant returns**
- **Sishen Iron Ore Company Community Development Trust executes Subscription and Shareholder Agreements to become the Company's new Broad Based Black Economic Empowerment partner in South Africa**
- **Acquisition of the Wolvenfontein Coal Project completed**
- **Company satisfies key conditions precedent of the secured debt funding from ABSA Capital, one of South Africa's largest financial service providers**
- **Exploration drilling program in Botswana intersects major coal bearing carbonaceous zones with analytical results pending**

The second quarter of the 2011/12 financial year saw the Company's investment in its South African thermal coal mining and export business continue to perform exceptionally well and follows a similarly strong performance in first quarter. Record export sales, revenue and earnings were reported from the Ferreira Coal Mine, the Vlakvarkfontein Coal Mine maintained its strong production and earnings performance and new mine development at the Penumbra Coal Mine proceeded on schedule and budget.

The Company's South African subsidiary Continental Coal Limited ("CCL") continued to perform strongly and reported unaudited sales revenue of US$23.9m and gross profit of US$5.4m for the Quarter.

South Africa
T +27 11 881 1420 F +2711 881 1423 W www.conticoal.com
9th Floor Fredman Towers, 13 Fredman Drive, Sandton 2196
P.O. Box 787646, Sandton 2146

Australia
T +61 8 9488 5220 F +61 8 9324 2400 W www.conticoal.com
Ground Floor, 1 Havelock Street, West Perth, WA 6005
P.O. Box 684, West Perth WA 6872

Executive Chairman Andy Macauly Executive Director Peter Landau Executive Director Jason Brewer
Non Executive Director James Leahy Chief Executive Officer Don Turvey

## OPERATIONS

### Health and Safety

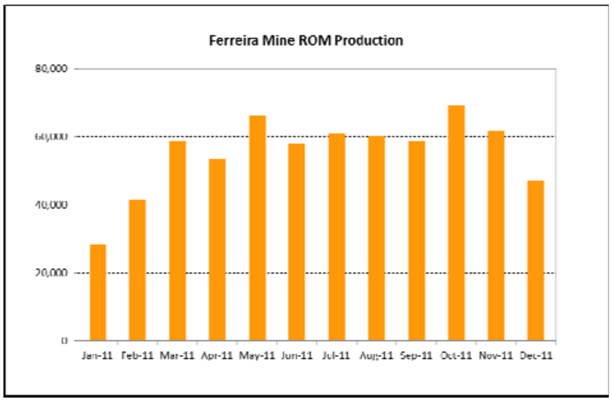
Continental through its South African subsidiary CCL has an exemplary health and safety record at its operations. Providing a safe working environment for all its employees is central to the Company's ongoing performance targets. Building a culture of safety awareness is key to the continuous improvements that are being achieved at all of the Company's operations in South Africa.

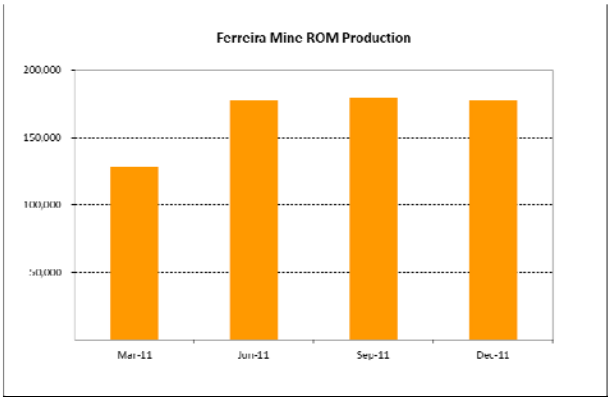
During the Quarter the Delta Processing Operations exceeded 1,000 days without a Lost Time Injury. The rolling 12 month Lost Time Injury Frequency Rate for both the Ferreira Coal Mine and Delta Processing Operations remains at zero. The Ferreira Coal Mine and Delta Processing Operations have each now achieved 831 and 1,080 calendar days without Lost Time Injury.

The Vlakvarkfontein Coal Mine reported no Lost Time Injuries for the Quarter. The operation has only had one lost time injury since development activities commenced in February 2010. The current Lost Time Injury Frequency rate is 2.90.

### Ferreira Coal Mine and Delta Processing Operations

ROM coal production of 177,873 tonnes at the Ferreira Mine for the Quarter was 1% below the previous quarter's record ROM production of 179,795 tonnes.




ROM production exceeded the budgeted ROM coal production levels of approx. 47,500 tonnes per month for the Quarter. Although ROM production of 46,985 tonnes was achieved in the month of December this was in line with the budgeted levels for the month that was impacted by public holidays.

| FERREIRA PRODUCTION PERFORMANCE (tonnes unless stated) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Oct 11** | **Nov 11** | **Dec 11** | **DEC QTR** | **SEP QTR** | **DIFF (%)** | **YTD** |
| Overburden ($m^3$) | 400,594 | 425,209 | 292,216 | **1,118,019** | **1,399,614** | **-30%** | **2,517,633** |
| ***Total Hards/Softs*** | **400,594** | **425,209** | **292,216** | **1,118,019** | **1,399,614** | **-30%** | **2,517,633** |
| B/C Lower Coal<br>C Upper Coal | 58,601<br>10,627 | 54,081<br>7,579 | 35,325<br>11,660 | **148,007**<br>**29,866** | **154,147**<br>**25,648** | **-4%**<br>**+16%** | **302,154**<br>**55,514** |
| ***Total ROM Coal*** | ***69,228*** | ***61,660*** | ***46,985*** | **177,833** | **179,795** | **-1%** | **357,668** |
| **Summary** | | | | | | | |
| Overburden ($m^3$) | **400,594** | **425,209** | **292,216** | **1,118,019** | **1,399,614** | **-30%** | **2,517,633** |
| ROM Coal | **69,228** | **61,660** | **46,985** | **177,873** | **179,795** | **-1%** | **357,668** |

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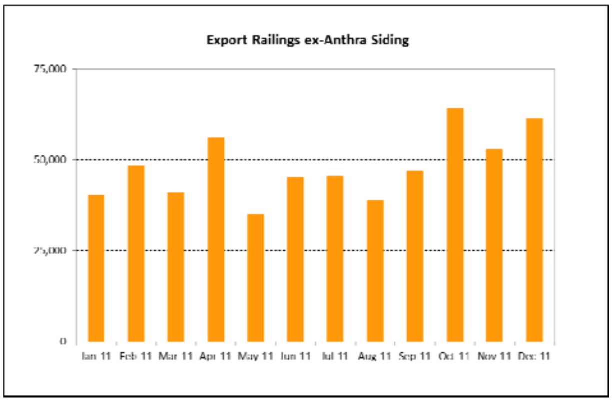
***Mining Activities at the Ferreira Coal Mine***

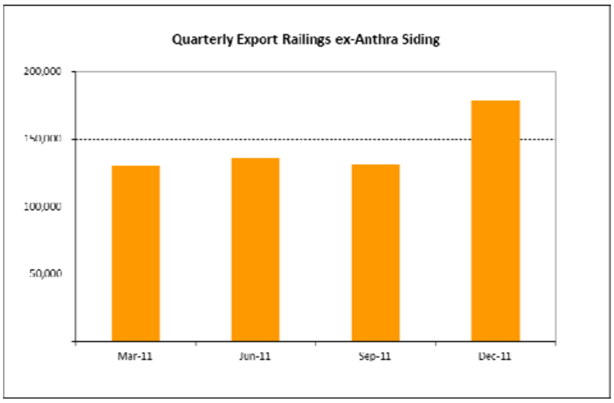
During the Quarter the Delta Processing Operations washed a total of 261,990 tonnes, a new record amount of washed tonnes for the plant and in line with the previous quarter's 261,013 tonnes. The washed tonnes throughput comprised both ROM coal production from the Ferreira Coal Mine and raw coal purchases from nearby operations, which are blended with the Company's own production.

***The Delta Processing Operations adjacent to the Company's Anthra Rail Siding***

The Company achieved record production of 156,494 tonnes of a high quality primary export thermal coal product during the Quarter from the Delta Processing Operations. This compares to the previous four quarters production of 149,986 tonnes, 136,514 tonnes, 79,506 tonnes and 62,333 tonnes achieved. An average primary yield of 55.6% for the Quarter was achieved, below the 61.5% achieved in the previous quarter. The reduced yield for the Quarter is a result of the Company now only producing an export product from the Delta Processing Operations and washing the C Upper coals which have a much lower yield than the B and C Lower coals.

During the Quarter the Company railed a record 178,450 tonnes of high quality export thermal coal to the Richards Bay Coal Terminal ("RBCT"). This represents a 36% increase on the previous quarter and a 31% increase on the previous record of 136,400 tonnes achieved in the June 2011 quarter. As at 31 December a closing stockpile of 29,154 tonnes of export thermal coal was reported at the Delta Processing Operations with a further 13,839 tonnes of C Lower coal.




The average gross sales price received on the 178,450 tonnes of export thermal coal railed to RBCT was US$107/tonne (compared to the US$116/tonne received in the September 2011 quarter). Whilst the API4 reference price reduced by 8% over the quarter, the average ZAR:USD over the quarter increased to 8.11 compared to 7.12 for the previous quarter resulting in a significantly higher ZAR denominated coal price than received than earlier in the year.

**Mashala Resources, the Company's subsidiary that owns and operates the Ferreira Coal Mine and Delta Processing Operations reported unaudited revenue for the Quarter of ZAR142.6m, a 37.5% increase on the ZAR103.7m reported in the previous quarter. EBITDA of ZAR21.0m (after mining, processing, administration, materials handling, export, exploration closure and indirect costs) was a 76.4% increase on the ZAR11.9m of EBITDA reported in the previous quarter.**

### Vlakvarkfontein Coal Mine

During the Quarter, the Vlakvarkfontein Coal Mine achieved ROM coal production of 297,061 tonnes, a 5% increase on the ROM production of 282,735 tonnes achieved in the previous quarter and in line with the budgeted quarterly ROM production target of 300,000 tonnes. The average strip ratio during the Quarter was 1.64 compared to 2.12 in the previous quarter.

| **VLAKVARKFONTEIN PRODUCTION PERFORMANCE (tonnes unless stated)** | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Oct 11** | **Nov 11** | **Dec 11** | **DEC QTR** | **SEP QTR** | **DIFF (%)** | **YTD** |
| Softs ($M^3$) | 88,621 | 18,031 | 25,606 | **132,258** | **128,489** | **+3%** | **260,747** |
| ***Total Softs*** | ***88,621*** | ***18,031*** | ***25,606*** | **132,258** | **128,489** | **+3%** | **260,747** |
| Overburden | 26,015 | 56,645 | 45,618 | **128,278** | **346,543** | **-63%** | **474,821** |
| Interburden | 86,731 | 77,162 | 63,950 | **227,843** | **123,638** | **+84%** | **351,481** |
| ***Total Hards*** | ***112,746*** | ***133,807*** | ***109,568*** | **356,121** | **470,181** | **-25%** | **826,302** |
| 4 Seam Coal | 73,015 | 22,491 | 43,966 | **139,472** | **212,626** | **-34%** | **352,098** |
| 2 Seam Coal | 29,781 | 88,651 | 39,157 | **157,589** | **70,109** | **+125%** | **227,698** |
| ***Total Coal*** | ***102,796*** | ***111,142*** | ***83,123*** | **297,061** | **282,735** | **+5%** | **579,796** |
| **Summary** | | | | | | | |
| Total Softs | **88,621** | **18,031** | **25,606** | **132,258** | **128,489** | **+3%** | **128,489** |
| Total Hards | **112,746** | **133,807** | **109,568** | **356,121** | **470,181** | **-25%** | **470,181** |
| Total Coal | **102,796** | **111,142** | **83,123** | **297,061** | **282,735** | **+5%** | **282,735** |

The Vlakvarkfontein Coal Mine achieved domestic sales of 309,222 tonnes of thermal coal during the Quarter. This represented a 24% decrease on the record 384,443 tonnes of domestic sales achieved in the previous quarter, reducing stockpile levels significantly. Sales for the Quarter were from ROM coal production and from the existing ROM stockpile.

Over 80% of the domestic thermal coal sales completed during the Quarter were of a "standard" -50mm Eskom thermal coal product compared to 68% in the previous quarter. Further sales of a lower value "non-select" product were made to other domestic thermal coal users in South Africa. During the Quarter the Company reduced total ROM stockpile levels from an opening balance of 121,272 tonnes to a closing stockpile balance of 69,670 tonnes.

Mining during the Quarter was focused on both the 4 and 2 coal seams, with ROM production of 157,589 tonnes from the 2 seam (212,626 tonnes for the previous quarter) and 139,472 tonnes from the 4 seam (70,109 tonnes for the previous quarter). Total "free on truck" costs of ZAR114/sales tonne were incurred for the Quarter compared to ZAR102/sales tonne in the previous quarter.

***Stockpiling of Coal at the Vlakvarkfontein Coal Mine***

**Ntshovelo Mining Resources, the entity that operates the Vlakvarkfontein Coal Mine, reported unaudited revenue for the Quarter of ZAR57.7m, a 2% increase on the ZAR56.8m reported in the previous quarter. EBITDA of ZAR15.9m (after mining, processing, administration, management fees to CCL and indirect costs) was a 5% decrease on the ZAR16.9m of EBITDA reported in the previous quarter.**

## DEVELOPMENT PROJECTS

### Penumbra Coal Project

During the Quarter the Company continued its development activities at its proposed third thermal coal mining operation, the Penumbra Coal Mine. Following the mobilisation of the principal earth works contractor, Leomat (Pty) Limited ("Leomat') in September 2011, work during the Quarter was focused on construction of the box-cut for the twin declines, civil construction for all site development works and surface coal handling facilities. It also included earth works for the pollution control dam, the security berm around the site and terrace for the site buildings, as well as the access roads and associated stormwater drainage.

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Development of the box-cut was completed over the Quarter on schedule by Leomat with the installation of support in the box-cut and of the portal highwall entrance with up to 9m soil nails, wire mesh and shotcrete. Given the strong performance of Leomat in completing the box-cut development, their scope of work was increased to include the construction of the concrete access ramp into the box-cut, which commenced early in December 2011.

***Penumbra Coal Mine box-cut September 2011***

***Penumbra Coal Mine box-cut October 2011***

***Penumbra Coal Mine box-cut November 2011***

***Penumbra Coal Mine box-cut December 2011***

Late in the Quarter, Murray & Roberts, South Africa's leading engineering, contracting and construction services company were awarded the ZAR53m contract to complete the development of the twin declines at the Penumbra Coal Mine.

Murray & Roberts commenced mobilisation to the Penumbra Coal Mine site in December 2011 with equipment arriving on site and site induction and pre-medicals of the contractors site workforce commencing. Murray & Roberts operates in Southern Africa, Middle East, Southeast Asia, Australasia and North and South America from its home-base in Johannesburg, South Africa, where it has a public listing on the JSE.

During the Quarter the Company advanced the awarding of the contracts for the construction of the power line from the sub-station at the Delta Processing Operations to the Penumbra Coal Mine site and for the construction of the base for the co-disposal dam for the discard material from the wash plant. In addition the underground mining equipment tenders were finalised by the Company and TWP Projects, as the appointed EPCM contractor, and meetings were held with the preferred supplier for the approx. ZAR70m equipping of the two production sections with continuous miners and shuttle cars.

To date approx. 50% of the Penumbra Coal Mine development capital has now received firmed quotes from the preferred contractors, construction companies and suppliers that are in line with the Company's budget of approx. US$40m. All current development activities are proceeding in line with this budget and are slightly ahead of schedule.

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***Activities in the Penumbra Coal Mine box-cut progressed significantly over the Quarter***

The Penumbra Coal Mine is set to become the Company's third thermal coal mining operation in South Africa. Planned production of 750,000 tonnes per annum of ROM coal from the Penumbra Coal Mine will be beneficiated through the existing (and adjacent) Delta Processing Operations, which comprises a 1.8Mtpa coal processing plant and the 1.2Mtpa Anthra Rail Siding. Sales of 500,000 tonnes per annum of a RB1 specification, high quality export thermal coal product are forecast. The export thermal coal product will be railed through to the Richards Bay Coal Terminal under existing rail contracts and sold to EDF Trading and to other parties under export off-take agreements. At forecast average total costs of ZAR490/t FOB (May 2011 terms), the Penumbra Coal Mine is forecast to generate annual free cashflow of approx. US$23m based on current exchange rates and export thermal coal prices.

**De Wittekrans Coal Project**

During the Quarter the Company completed its review of the preliminary draft of the Bankable Feasibility Study on the De Wittekrans Coal Project from study managers TWP Projects. The study demonstrated that the De Wittekrans Coal Project is both a technically and economically viable project and has the potential to generate significant returns for shareholders.

The De Wittekrans Coal Project is located in the Ermelo coalfield, 15km southeast of the town of Hendrina in Mpumalanga Province and within the Company's De Wittekrans Complex which also includes the Vaalbank, Knapdaar and Project X coal projects and comprises over 250Mt of JORC compliant resources. The De Wittekrans project has a New Order Prospecting Right awarded by the Department of Minerals and Resources in 2005. The Company is awaiting the award of a New Order Mining Right from the Department of Minerals and Resources.

Under the draft Bankable Feasibility Report, the De Wittekrans Coal Project is proposed to be developed as a conventional opencast and underground mine. Opencast mining is proposed initially at a rate of 100,000 tonnes per month over a five (5) year period. Underground development is proposed to commence in the second production year with access from a highwall.

Underground mining is proposed to utilise six continuous miner sections with production forecast to continue for 31 years. Planned processing of the 3.6Mtpa ROM production will be through a new 600t/hour dense medium separation wash plant.

Production of approx. 1.7Mtpa of a 20MJ/kg thermal coal product to be sold to the domestic market is forecast. A further 0.8Mt of a 27.5MJ/kg of a RB1 specification high quality export thermal coal product is forecast to be railed from a new rail siding and sold FOB at the Richards Bay Coal Terminal.

The key findings of the preliminary Bankable Feasibility Study Results are summarised below:

| DE WITTEKRANS COAL PROJECT<br>PRELIMINARY RESULTS OF THE BANKABLE FEASIBILITY STUDY (July 2011 terms) | |
|---|---|
| **Reserves and Mine Life** | |
| Mine Life | 33 years |
| Saleable Reserves | 43.8Mt |
| Gross In Situ Resources | 167.0 Mt |
| **Run of Mine (ROM) Production** | |
| Annual ROM Production | 3.6 Mt |
| Total Open Pit ROM Production | 6.1 Mt |
| Total Underground ROM Production | 110.0 Mt |
| **Coal Sales** | |
| Annual Domestic Coal Sales | 1.7 Mt (20.0MJ/kg Eskom Product) |
| Annual Export Coal Sales | 0.8 Mt (27.5MJ/kg RB1 Export Product) |
| **Forecast Sales Revenue** | |
| Annual Domestic Coal Sales | ZAR 308m (approx. US$38m) |
| Annual Export Coal Sales | ZAR 724m (approx. US$93m) |
| **Estimated Operating Expenses** | |
| Annual Operating Expenses | ZAR 486m (approx. US$63m) |
| Average Unit Operating Expenses | ZAR 140/t ROM (approx. US$18/t ROM) |
| Average Operating Expenses | ZAR 428/t Export (approx. US$55/t Export) |
| **Estimated Up-Front Capital Costs** | |
| Surface Infrastructure and Siding[1] | ZAR 554m (approx. US$71m) |
| Coal Wash Plant[1] | ZAR 308m (approx. US$40m) |
| Underground Development | ZAR 838m (approx. US$108m) |
| **Forecast Cashflow** | |
| **Annual Free Cashflow After Tax** | ZAR 270m (approx. US$36m) |

Assumes ZAR:USD of 7.75:1, domestic coal sales at ZAR9.00/GJ and API4 Coal Price of US$110/t.

[1] If developed and funded 100% by the Company and ignoring Coal Wash Plant BOOM, Toll Treat and Joint Venture Options

Total up-front capital (July 2011 terms) to be spent over the initial three (3) years for the De Wittekrans Coal Project of ZAR1.7bn (approx US$219m), comprises ZAR394m (approx US$51m) of surface infrastructure, ZAR308m (approx US$40m) for the coal wash plant, ZAR160m (approx US$21m) for offsite infrastructure and rail siding construction and ZAR838m (Approx US$107m) of underground mine development. The up-front capital is offset over this period by approx. ZAR254m of (approx US$33m) operating cashflow from the initial three (3) years of open cast operations.

The initial review of the preliminary draft of the Bankable Feasibility Study by the Company has identified the opportunity to potentially enhance the project returns through utilisation of existing coal wash plants and rail sidings in the vicinity of the De Wittekrans Coal Project to both reduce up-front capital commitments by approx. ZAR468m (approx US$60m) and accelerate project development and first coal production.

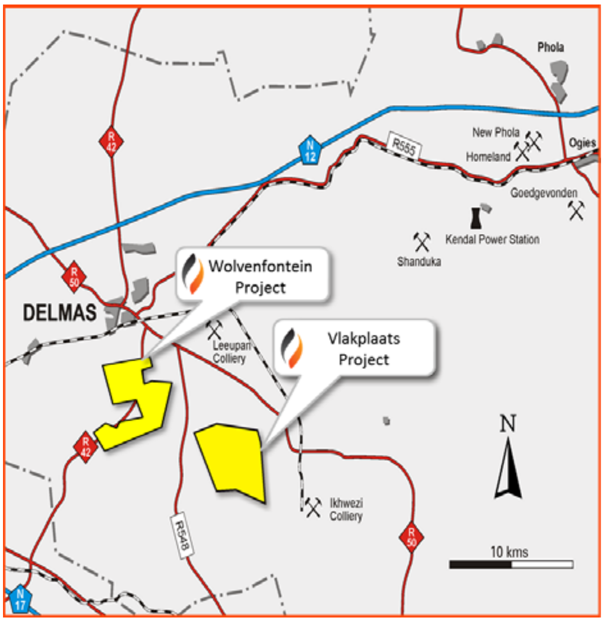
During the Quarter the Company and its consultants progressed discussions with a number of parties in respect of utilising their existing operating coal wash plants and rail sidings located close to De Wittekrans Coal Project. These discussions have continued into the current quarter.

The Company believes that the results of the preliminary Bankable Feasibility Study confirms that the De Wittekrans Coal Project, scheduled to be the Company's fourth operating coal mine, is a significant asset of the Company and the preliminary results confirm that it has the potential to lead to a significant increase in both export and domestic production.

**EXPLORATION**

**Wolvenfontein Coal Project**

During the Quarter, CCL completed the acquisition of a 100% interest in the Wolvenfontein Coal Project for total consideration of ZAR10.4m (approx. A$1.3m) payable in equity. The Wolvenfontein Coal project has a JORC compliant inferred resource of 36.7Mt.




The Wolvenfontein Coal Project is located less than 5km to the west of the Company's Vlakplaats Coal Project and at the western extent of the Witbank Coal Field. The acquisition of the Wolvenfontein Coal Project further consolidate the Company's position in the Delmas area and around the Vlakplaats Coal Project, where the Company in joint venture with KORES, is looking to develop a significant low cost and initially open cast mining operation.

The Wolvenfontein Coal Project has a valid Prospecting Right and in addition to its proximity to infrastructure, it is bordered by four operating collieries and a number of advanced coal projects.

CCIC Coal (Pty) Ltd, an independent geological consultant, was retained by the Company to complete an updated resource assessment of the Wolvenfontein Coal Project within the southernmost portion, Portion 6.

A summary of the JORC compliant inferred resource as determined by CCIC is provided below.

| **WOLVENFOTEIN COAL PROJECT - INFERRED RESOURCE STATEMENT** | | | | |
|---|---|---|---|---|
| **Seam** | **Cut-Off Parameters[1]** | **Avg. Seam Thickness (m)** | **Volume ($m^3$)** | **Tonnage (GTIS)[2]** |
| *No. 4 Seam - Central* | *Thickness>0.5m, DAFVOL>24%, Excludes Wetland Areas* | *0.55* | *109,490* | |
| *No. 2 Seam -West* | | *8.20* | *1,586,469* | |
| *No. 2 Seam - Central* | | *9.40* | *17,400,445* | |
| *No. 2 Seam - East* | | *5.72* | *1,683,919* | |
| **TOTAL 2 SEAM** | **Thickness>0.5m, DAFVOL>24%, Excludes Wetland Areas** | | **20,670,833** | **36,560,884** |
| **TOTAL 2+4 SEAM** | | | **20,780,322** | **36,725,119** |

[1]Cut offs applied included seam thicknesses less than 0.5m and/or dry ash-free volatile matter (DAFVOL) of less than 24%. In addition wetlands areas on the Wolvenfontein Coal Project were also excluded. For the tonnage calculations the average raw relative densities were used. [2]Global tonnes in situ

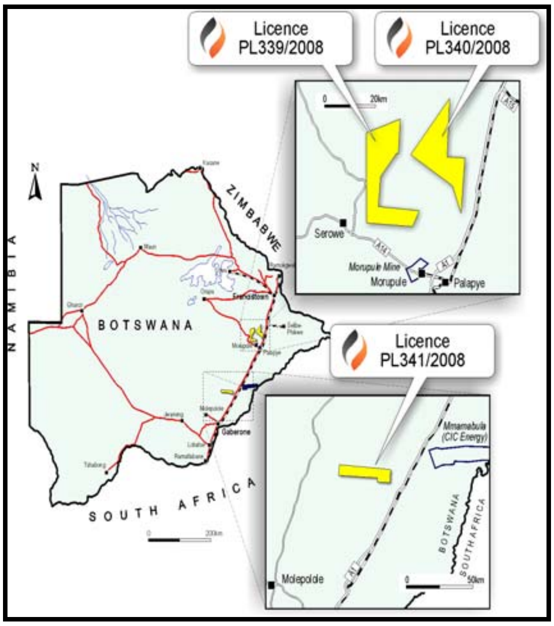
The raw coal qualities are summarised in the table below.

| WOLVENFOTEIN COAL PROJECT – AVERAGE RAW COAL QUALITIES | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Seam** | **Cut-Off Parameters** | **RD (g/cm³)** | **IM (%)** | **ASH (%)** | **VM (%)** | **FC (%)** | **TS (%)** | **CV (MJ/kg)** |
| No. 4 Seam | None | 1.50 | 1.30 | 20.96 | 17.30 | 60.44 | 4.84 | 26.65 |
| No. 2 Seam | None | 1.77 | 3.38 | | | | | |
| ***Total 2+4 Seam*** | ***None*** | | | | | | | |
| No. 4 Seam | Thickness>0.5m, DAFVOL>24% | 1.50 | 1.16 | 21.68 | 19.31 | 57.85 | 5.02 | 26.33 |
| No. 2 Seam | | 1.77 | 3.38 | 39.40 | 18.70 | 38.51 | 0.90 | 16.42 |
| ***Total 2+4 Seam*** | ***Thickness>0.5m, DAFVOL>24%*** | | | | | | | |
| *No. 4 Seam - Central* | *Thickness>0.5m, DAFVOL>24%, Excludes Wetland Areas* | 1.50 | 1.16 | 21.68 | 19.31 | 57.85 | 5.02 | 26.33 |
| *No. 2 Seam -West* | | 1.78 | 3.35 | 39.51 | 18.59 | 38.55 | 0.66 | 16.32 |
| *No. 2 Seam - Central* | | 1.77 | 3.28 | 40.22 | 17.94 | 38.56 | 0.89 | 16.19 |
| *No. 2 Seam - East* | | 1.70 | 3.98 | 35.27 | 21.34 | 39.40 | 1.33 | 17.78 |

**Botswana**

During the Quarter the Company continued its diamond drilling exploration program on its Botswana Coal Exploration Projects.

The Company through its Botswana subsidiary, Weldon Investment (Pty) Ltd, holds three prospecting licenses covering an area of 964km² in Botswana. The licenses, PL339/2008 and PL340/2008 are together known as the Serowe Project, and PL341/2008 is known as the Kweneng Project.




During the Quarter, Botswana drilling company Discovery Drilling continued exploration over both the Serowe and Kweneng Coal Projects with three drill rigs operating across the project sites.

A total of six diamond drill holes were completed during the Quarter on PL340/2008 - SRE02 to SRE04, SRE08 to SRE10 - and a further ten drill holes – SRW01 and SRW10 - completed on PL339/2008. This follows the four that were completed in the previous quarter on PL340/2008.

Drilling on PL340/2008 was completed in October 2011. Drilling on PL339/2008 commenced on 18 October and drilling on PL341/2008 commenced on 28 November with two holes (KW07 and KW08) completed during the Quarter.

The drilling program of wide spaced (4km) boreholes at the Serowe Project on PL339/2008 and Pl340/2008 has defined the presence of major coal bearing carbonaceous zones in the central and northern portions of PL339/2008 and in the western and northern portions of PL340/2008. These zones correlates to the main Tshimoyapula and Lechana Coal Basins and to a lesser extent to the Morupule Coalfield area. A number of diamond core boreholes were also drilled in the central and southern parts of PL339/2008 and eastern part of PL340/2008 as part of the Company's requirement to relinquished part of the landholding as part of the renewal of the licenses.

The drilling program at the Kweneng Project PL341/2008 commenced late in the Quarter, with two rigs on site in late November. Drilling of KW07 and KW08 were completed during the Quarter before drilling works were stopped on 9 December, core logging and sampling continued until 15 December and sample despatch until 22 December.

Drilling activities re-commenced subsequent to the Quarters end with the mobilisation to site of five rigs.

Preliminary results from the exploration program have indicated that the diamond drilling has intersected major coal bearing carbonaceous zones. Drilling on PL340/2008 on the north-western boundary of the license has indicated a coal mineralised strike length of approx. 20km and confirms previous historical results from exploration programs completed in the 1980s. Drilling on PL339/2008 on the north-eastern boundary, closest to PL340/2008 has further intersected major coal horizons and indicated a continuation of the identified coal horizons across from PL340/2008.

***Diamond drill core from holes SRE01to SRE03 on the Serowe Coal Project***

***Diamond drill core from holes SRE04 and SRE07 to SRE08 on the Serowe Coal Project***

Boreholes across PL339/2008 and PL340/2008 with coal were geophysically logged by Poseidon Geophysics and the following parameters recorded: natural gamma, density and calliper. Samples have been taken from all the major coal horizons including inter-bedded coals and carbonaceous mudstones. Individual seams >1.0m thickness were sampled separately and sent to an accredited laboratory in South Africa for quality determination. Analytical results for these are pending and scheduled to be received by the Company in the current quarter.

***Diamond drill core from holes SRW02 and SRW04 to SRW05 on the Serowe Coal Project***

***Diamond drill core from hole KW08 on the Kweneng Coal Project***

## CORPORATE

### ABSA US$65m Debt Funding

The Company secured committed finance from ABSA Capital for secured aggregate debt facilities of approx. US$65m. ABSA Capital is a division of Absa Bank Limited, one of South Africa's largest financial service providers and a subsidiary of Barclays Bank PLC.

The facilities comprise:

1. A secured 7 year term loan facility of US$35m to be made available to fund the development of the Penumbra Mine
2. A secured 7 year term loan facility of US$15m to be made available to refinance existing secured indebtedness under the EDF Trading Coal Prepayment
3. A secured annually renewable working capital facility of ZAR100m to fund general corporate working capital requirements

The facilities have received all necessary credit approvals and all associated due diligence has been completed by ABSA Capital. The Company will proceed to drawdown the US$35m tranche that is to be used to fund the development costs of the Penumbra Coal Mine, only when required, and in line with the project's current development schedule. The drawdown will follow CCL's expending its balance up-front of the projects development costs not met from the US$35m from its existing cashflow and upon fulfilment of all necessary conditions precedent.

During the Quarter the Company continued to satisfy the key outstanding conditions precedent of the US$35m tranche of funding. No drawings were made during the Quarter. The Company is currently not proposing to draw on the US$35m tranche until late in the current quarter and is not proposing to drawdown on any of the other tranches of funding.

### Broad Based Black Economic Empowerment Investment in Continental

During the Quarter the Sishen Iron Ore Company Community Development Trust ("SIOC-cdt") and CCL executed Subscription and Shareholder Agreements under which SIOC-cdt has become the Company's new partner in South Africa. SIOC-cdt is an established and highly successful Broad Based Black Economic Empowerment Company that holds a 3% interest in Sishen Iron Ore Company ("SIOC"), the operator of the Sishen, Sishen South and Thabazimbi iron ore mines, Africa's largest iron ore mining operations.

SIOC-cdt was established in 2006 as a broad based socio-economic empowerment ownership initiative as part of Anglo American PLC's unbundling of South African-based mining group Kumba Resources into two companies: Exxaro Resources and Kumba Iron Ore.

Kumba Iron Ore is a 74% shareholder and the manager of the Sishen Iron Ore Company ("SIOC"). The 26% BEE partners in SIOC are made up of Exxaro (20%), SIOC-cdt (3%) and an employee trust (3%). SIOC is the operator of the Sishen, Sishen South and Thabazimbi iron ore mines. The value of SIOC-cdt's shareholding in SIOC is valued at approx. ZAR6.5 billion (approx. US$0.8 billion). For the 6 months to 30 June 2011, SIOC-cdt received an interim cash dividend of ZAR284 million from Kumba.

The partnership with SIOC-cdt is considered by the Company to be a landmark agreement and will have a major impact on its business activities and opportunities in South Africa.

Under the terms of the agreement, SIOC-cdt will acquire the 26% interest in CCL, currently held by Masawu. SIOC-cdt will assume the ZAR215m intercompany loan that has accrued between CCL and Masawu since October 2008 and has further agreed to repay to the Company ZAR140m upon settlement of the transaction. The Company will re-invest the loan repayment directly back into its South African business.

During the Quarter the Company and CCL continued to progress the various administrative matters necessary to satisfy the conditions precedent to allow settlement of the transaction to proceed. Subsequent to the Quarters end the Company advised that it had have now satisfied all the key conditions precedent and was in the process of finalising the few remaining conditions precedent. Settlement of the transaction is scheduled to take place in the current quarter, with ZAR140m advanced to the Company.

Following completion of the transaction, SIOC-cdt has the right to appoint one director to the Company's Board and further have two directors, including the chairmanship of the board of CCL.

**Sale of Vanmag and Magnetite Exploration and Development Co (SA) (Pty) Limited**

During the Quarter the Company progressed the sale of its shareholding in Vanadium and Magnetite Exploration and Development Co (SA) (Pty) Limited ("Vanmag"). The sale, when completed will result in net proceeds of approx. US$10m to be received by the Company.

The Company received during the Quarter all the outstanding necessary approvals for the sale of its interest in Vanmag to a Chinese based steel manufacturer. Conclusion of the transaction is now just dependent upon financial settlement by the buyer.

Over the Quarter the Company has worked closely with the buyer whilst it sought approval for the remittance of funds from China to South Africa. Settlement was delayed as a result of these outstanding approvals of the buyer. The Company has committed to working with the buyer as it now looks to obtain the approvals necessary to complete settlement of the acquisition of Vanmag over the coming month.

**Moves to Acquire 100% of Mashala Resources (Pty) Limited**

During the Quarter documentation for the acquisition by CCL of the outstanding minority interests in Mashala Resources was completed and settlement is scheduled to take place in the current quarter.

The acquisition of the minority interests in Mashala Resources will provide CCL with a 100% interest in the Ferreira Coal Mine that is currently exporting high quality thermal coal, a 100% interest in the Penumbra Coal Mine that is currenty under construction and a 100% in the De Wittekrans Coal Project where a Bankable Feasibility Study has been completed.

**FINANCIAL PERFORMANCE**

Summary consolidation financial and operation results for the Company's subsidiary CCL is presented below based upon unaudited management accounts for the 3 months to 31 December 2011, 30 September 2011 and the 2011/12 financial year to date (6 months).

| SUMMARISED QUARTERLY FINANCIAL AND OPERATION RESULTS (US$'000 unless stated)[1] | | | | |
|---|---|---|---|---|
| | Continental Coal South Africa Limited[2] | | | |
| | **Dec 11 QTR** | **SEP 11 QTR** | **DIFF (%)** | **YTD** |
| **Production** | | | | |
| Run of Mine (t) | **474,932** | **462,530** | **+3%** | **937,462** |
| **Feed to Plant** | | | | |
| Run of Mine (t) | **261,990** | **261,013** | **+0%** | **523,003** |
| **Coal Buy-In** | | | | |
| Buy-in Tonnes (t) | **88,000** | **95,266** | **-7%** | **183,266** |
| **Processing Yield** | | | | |
| Primary Yield (%) | **58.6%** | **61.5%** | **-5%** | **58.6%** |
| **Sales** | | | | |
| Export (t) | **178,450** | **130,995** | **+36%** | **309,445** |
| Eskom (t) | **250,614** | **262,326** | **-4%** | **512,940** |
| Other (t) | **58,617** | **122,117** | **-52%** | **180,734** |
| Total Sales (t) | **487,681** | **515,438** | **-5%** | **1,003,119** |
| **Revenue** | | | | |
| Sales Revenue | **23,944** | **22,535** | **+6%** | **46,479** |
| **Cost of Sales** | | | | |
| Cost of Sales | **18,553** | **17,477** | **+6%** | **36,030** |
| **Gross Profit** | **5,391** | **5,059** | **+7%** | **10,430** |
| **Gross Profit Margin** | **23%** | **22%** | **+5%** | **22%** |
| Corporate/Admin Overheads | **1,967** | **1,522** | **+29%** | **3,489** |
| Exchange Loss/Gain | **394** | **517** | **-24%** | **911** |
| **EBITDA** | **3,030** | **3,019** | **+0%** | **6,049** |
| **Cash and Receivables** | **18,925** | **17,551** | **+8%** | **17,551** |

[1] assumes average ZAR:USD of 7.12:1 for the Sept 11 Quarter and average ZAR:USD of 8.11:1 for the Dec 11 Quarter

[2] Continental Coal South Africa Limited (CCL), the Company's principal operating subsidiary in South Africa. As at Quarters end the Company held a 74% interest in CCL

By order of the Board

**Jason Brewer**
**Executive Director**

For further information please contact:

**Investors/ shareholders**

Jason Brewer
Executive Director
T: +61 8 9488 5220

Don Turvey
Chief Executive Officer
T: +27 11 881 1420

E: admin@conticoal.com
W: www.conticoal.com

**Media (Australia)**

David Tasker
Professional Public Relations
T: +61 8 9388 0944

**Media (UK)**

James MacFarlane & Philippe Polman
Pelham Bell Pottinger
T: +44 20 7861 3864

**Nominated Advisor**

Stuart Laing
RFC Corporate Finance
T: +61 8 9480 2500

**Joint Brokers**

Edmund Higenbottam
Renaissance Capital
T: +44 20 7367 7777

**Joint Brokers**

Andrew Young
GMP Securities Europe LLP
T: +44 20 7647 2800

**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, Vlakvarkfontein 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.

**Competent Person Statement**

The information in this report that relates to the Coal Resources and Reserves has been prepared in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves as published by the Joint Ore Reserves Committee (JORC Code). The Australasian Joint Ore Reserves Committee (JORC) and the JORC Code requires that Competent Persons must belong to the Australasian Institute of Mining and Metallurgy (AusIMM), or the Australian Institute of Geoscientists (AIG), or a Recognized Overseas Professional Organisation (ROPO). ROPOs are professional organisations that the ASX, acting on advice from JORC and its parent organisations, accepts as bodies to which Competent Persons may belong to for the purpose of preparing documentation on Exploration Results and Mineral Resources, on which reports to the ASX are based. The South African Council for Natural Scientific Professions (SACNASP) as well as the Geological Society of South Africa are considered as ROPOs by JORC.

The information in this report that relates to Coal Resources on Vlakvarkfontein, Vlakplaats and Wolvenfontein is based on resource estimates completed by Dr. Philip John Hancox. Dr. Hancox is a member in good standing of the South African Council for Natural Scientific Professions (SACNASP No. 400224/04) as well as a Member and Fellow of the Geological Society of South Africa. He is also a member of the Fossil Fuel Foundation, the Geostatistical Association of South Africa, the Society of Economic Geologists, and a Core Member of the Prospectors and Developer Association of Canada. Dr. Hancox has more than 12 years' experience in the South African Coal and Minerals industries, holds a Ph.D from the University of the Witwatersrand (South Africa), and has authored a number of published and unpublished academic articles on the Karoo Basin and its contained coal, as well as over 50 peer reviewed scientific papers on various aspects of sedimentary geology and palaeontology. Dr. Hancox has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined by the 2004 Edition of the 'Australasian Code of Reporting of Exploration Results, Mineral Resources and the Ore reserves. Within the constraints mentioned above, all work undertaken by Dr. Hancox and related to the resource estimate was carried out following industry best practice standards using the South African Code for Reporting of Mineral Resources and Mineral Reserves (the SAMREC Code, 2007) in conjunction with the South African guide to the systematic evaluation of coal resources and coal reserves (SANS 10320:2004) as a basis. As such the resource statements contained in this report may be considered compliant with the JORC Code. Dr. Hancox consents to the inclusion in the ASX release of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Coal Resources and Reserves on Penumbra, Ferreira, De Wittekrans, Knapdaar, Project X, Vaalbank, Leiden and Wesselton II is based on coal resource estimates completed by Mr. Nico Denner, a full time employee of Gemecs (Pty) Ltd. Mr. Denner is a member in good standing of the South African Council for Natural Scientific Professions (SACNASP No. 400060/98) as well as a Member and Fellow of the Geological Society of South Africa. He has more than 15 years' experience in the South African Coal and Minerals industries. Mr. Denner has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined by the 2004 Edition of the 'Australasian Code of Reporting of Exploration Results, Mineral Resources and the Ore reserves. Within the constraints mentioned above, all work undertaken by Mr. Denner and related to the resource estimate was carried out following industry best practice standards using the South African Code for Reporting of Mineral Resources and Mineral Reserves (the SAMREC Code, 2007) in conjunction with the South African guide to the systematic evaluation of coal resources and coal reserves (SANS 10320:2004) as a basis. As such the resource statements contained in this report may be considered compliant with the JORC Code. Mr. Denner consents to the inclusion in the ASX release of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Exploration Results of the Serowe and Kweneng Projects is based on data compiled by Mr Nico Denner, a full time employee of Gemecs (Pty) Ltd. Mr. Denner is a member in good standing of the South African Council for Natural Scientific Professions (SACNASP No. 400060/98) as well as a Member and Fellow of the Geological Society of South Africa. He has more than 15 years' experience in the South African Coal and Minerals industries. Mr. Denner has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined by the 2004 Edition of the 'Australasian Code of Reporting of Exploration Results, Mineral Resources and the Ore reserves. Within the constraints mentioned above, all work undertaken by Mr. Denner and related to the resource estimate was carried out following industry best practice standards using the South African Code for Reporting of Mineral Resources and Mineral Reserves (the SAMREC Code, 2007) in conjunction with the South African guide to the systematic evaluation of coal resources and coal reserves (SANS 10320:2004) as a basis. As such the resource statements contained in this report may be considered compliant with the JORC Code. Mr. Denner consents to the inclusion in the ASX release of the matters based on his information in the form and context in which it appears.

The Coal Reserve estimate for Vlakvarkfontein was prepared by Mr. JJ Lotheringen Pr Eng (Ukwazi). Mr. Lotheringen is a member in good standing of the Southern African Institute of Mining and Metallurgy (SAIMM), is a registered Professional Mining Engineer with the Engineering Council of South Africa (ECSA) and has a Mine Managers Certificate of competency for coal mines. He has more than thirteen (13) years' experience in the South African Coal and Minerals industries. Mr. Lotheringen has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined by the 2004 Edition of the 'Australasian Code of Reporting of Exploration Results, Mineral Resources and the Ore reserves. Within the constraints mentioned above, all work undertaken by Mr. Lotheringen and related to the resource estimate was carried out following industry best practice standards using the South African Code for Reporting of Mineral Resources and Mineral Reserves (the SAMREC Code, 2007) in conjunction with the South African guide to the systematic evaluation of coal resources and coal reserves (SANS 10320:2004) as a basis. As such the resource statements contained in this report may be considered compliant with the JORC Code. Mr. Lotheringen consents to the inclusion in the ASX release of the matters based on his information in the form and context in which it appears.