Operations Update & Outlook

Continental Coal Ltd
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Open Briefing interview with CEO Don Turvey, Executive Director Jason Brewer and CFO Maritz Smith

Continental Coal Limited (ASX: CCC; AIM: COOL, US-OTCQX: CGFAY) is a thermal coal producer with 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. In 2012 Continental will continue development of its flagship project, the fully funded Penumbra coal mine. Continental is targeting a ROM production rate of approx. 7 Mtpa and sales of approx. 5Mtpa once Penumbra and its De Wittekrans project reach steady-state.

In this Open Briefing®, Don, Jason and Maritz discuss:

- Penumbra project update
- Financial outlook
- Coal market outlook
- Botswana projects update

Record of interview:

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Continental Coal Limited (ASX: CCC; AIM: COOL, US-OTCQX: CGFAY) has reported that development activity at the Penumbra project (CCC 80%)is progressing well with the twin declines having advanced significantly over the last quarter. Is progress in line with your schedule? Are you confident that the mine will be commissioned and producing in Q4 CY2012?

CEO Don Turvey
Development activities at Penumbra, our third thermal coal mining operation in South Africa, only commenced in September 2011 with the commencement of the initial site civil works and then followed by the box-cut excavation. Decline development work is being undertaken by highly experienced contractors and only started in February 2012. After six months of decline development we had completed 460 metres of combined total twin decline development as at 6 August 2012.

We set ourselves an aggressive timetable to bring Penumbra into production and have overcome some poor geotechnical issues in the first 100 metres of development. With the advance rates continuing to improve and with strong performance from Murray and Roberts, we remain confident we can achieve first mine production coal from Penumbra early in Q4 CY2012 with the coal immediately washed through our existing Delta Processing Operations and available for export from our existing rail siding to Richards Bay Coal Terminal.

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The development cost of Penumbra is estimated at US$40 million which is being funded from existing cash and debt funding provided by ABSA Capital. What are the key risks to the project budget at this stage of development?

CEO Don Turvey
The development costs of Penumbra are fully funded. We have largely contributed our share of the costs and will be drawing on the ZAR257million (approximately A$30 million) ABSA Capital secured debt facility to fund the balance of the costs.

The key risks we face in completing the mine development are primarily associated with potential delays to the decline development, associated cost overruns due to this and other capital cost increases. Our decline development is proceeding well and we are actively managing its progress. In addition, the majority of our capital costs have now been procured and/or secured with firm tenders. We have further mitigated the risks associated with cost overruns by already establishing and funding a contingency fund of approximately US$4.5 million to cover any unforeseen events.

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What is the outlook for thermal coal prices both domestically in South Africa and for Richard Bay Coal Terminal export prices? What operating margins are you expecting to achieve across the portfolio of production?

CEO Don Turvey
The domestic market remains buoyant with significant increases in demand and Eskom, South Africa's state utility company continuing to seek long term off-takes for most of its coal fired power stations. The Eskom coal pricing has increased significantly in recent years. As it is linked to relevant escalation indices, it ensures that our operating margins remain largely intact and robust.

At our Vlakvarkfontein Mine, where we executed a coal supply agreement with Eskom earlier this year (becoming one of only 25 direct suppliers to Eskom), we have consistently generated operating margins of above 30% and in 2011/12 the mining operation reported a record year in terms of thermal coal production, sales, revenues, earnings and profits. The same cannot be said for the export coal market which has been under pressure due to the global economic outlook and its impact on coal demand. However, importantly the weaker ZAR/US$ exchange rate is off-setting some of the lower dollar denominated export prices.

However, current export coal price levels are not considered sustainable in the long term and the expectation is that prices will recover to above the US$100/tonne in the next 12 to 24 months.

We are already seeing export prices and exports increase out of South Africa in recent months and according to some reports, the recent rally in the export prices is due to market participants covering short positions which are driving prices back up.

In the medium to long term, we expect global demand for thermal coal to continue particularly from China and India on the back of further urbanisation and the resultant increase in energy use.

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As Continental ramps up production to its targeted ROM rate of approximately 7 Mtpa, will it have secured Richards Bay Coal Terminal allotments for the planned export deliveries and is there sufficient allocation available for Continental's targeted increase to 2 Mtpa through the terminal?

CEO Don Turvey
Continental's growth and expansion plans are forecast to see substantial increases in both our domestic coal sales and export coal sales in the medium term. We are confident with our capacity to sell into the domestic market given the demand from Eskom and that sales are typically made at mine-gate. Our forecast increase in export sales will require us to increase our rail and port allocations through the Richards Bay Coal Terminal and other established coal ports, and despite the challenge that poses, we remain confident.

Since producing our first tonne of export quality coal from the Ferreira Mine (CCLSA 85%) in November 2010, we have successfully secured rail and port access to export 100% of its production of a high quality export thermal coal through the Richards Bay Coal Terminal, and the Ferreira Mine has exported almost 1 million tonnes since then. Our Anthra Rail Siding, adjacent to the Ferreira Mine and our new mine at Penumbra, have clear advantages in being so close to the main Richards Bay Coal Terminal rail line and rail junction.

With substantial investment in excess of US$2 billion being made into South Africa's rail infrastructure and increased capacity becoming available there to match the excess capacity at South Africa's and Mozambique's coal export ports, we continue to advance our negotiations to secure our medium term requirements through the Richards Bay Coal Terminal and other coal loading ports in Richards Bay and at Maputo to match our medium term export coal sales growth.

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You plan to commence production from four separate mining areas at De Wittekrans. Estimated production from these mines is 3.6 Mtpa. The development cost of De Wittekrans is estimated at US$220 million, including underground development and a coal wash plant. Are you confident about the De Wittekrans development schedule and how will you fund its staged development?

CEO Don Turvey
The Feasibility Study completed on the De Wittekrans project late last year demonstrated a technically and economically feasible project. Its development is forecast to double both our production of domestic and export coal and double our forecast earnings. It is a key component of our growth strategy and importantly one of a few new mine developments of its size in South Africa with planned sales of export thermal coal. We are completing further optimisation studies focused on leveraging existing and nearby infrastructure. This will likely further enhance the project economics, influence the development timetable and capital costs and clearly influence the proposed funding strategy.

We are currently finalising the permitting process in respect to the issuance of the mining right and also key development permits including the water use license and hope to be able to announce progress on these shortly.

The financing of the De Wittekrans project is equally as important as the investment decision itself. We will embark upon a process of determining an appropriate risk-based debt/equity funding mix following the optimisation studies and finalisation of the life-of-mine model.

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Continental Coal went from zero revenues in FY2010 to US$82.1 million in FY2012. With Penumbra's development on schedule and the De Wttekrans project ramping up, when do you anticipate that Continental Coal will be cash-flow positive?

CFO Maritz Smith
The company has undergone substantial growth over the past two years in both operational and financial performance. Our mining operations have been generating positive operational profits and that is budgeted to continue in FY2013.

Looking forward to FY2013, the Vlakvarkfontein Coal Mine (CCLSA 60%) should continue generating strong cash flows on the back of robust Eskom demand and prices. The Ferreira Coal Mine (CCLSA 85%) although reaching the end of its mine life, will benefit from the extensions secured recently over adjacent resources once the necessary permits are in place. Whilst costs at the Ferreira Coal Mine are forecast to increase as a result of processing higher volumes of raw coal purchased from nearby mines that do not have the processing or rail capabilities, we are forecasting Ferreira mine and the associated Delta Processing Operations to at least cover its operational costs during FY2013.

The Penumbra mine should become Continental's flagship operation in FY2013 as production is ramped up following first coal production that is expected in October 2012. Cash flow from that operation will first be applied to meet the scheduled debt repayments under the ABSA Capital project financing and also to accelerate debt repayments. Average EBITDA of US$15 million per annum is forecast over the life of mine, based current prices and given the low cost of production.

We have successfully brought new mining operations into production and typically within a 12 month period. We have invested strongly in our management team and we believe we have the management capacity to successfully operate and develop several new mining operations in the medium term.

Whilst operationally we are steady going forward, the current market conditions have impacted our corporate cash and working capital position. With the sale of our interest in VanMag remaining outstanding and our South African cash flows being dedicated to the new Penumbra mine, we are working on various options with a view to injecting liquidity at a corporate level for working capital purposes and the settlement of the final $8.5 million Mashala payment due 30 September 2012. We furthermore envisage lower corporate costs at the holding company level for FY2013.

The notice of meeting issued to shareholders last month seeking ratification of recent share issues and a possible approval to raise further equity was convened to ensure that the company has the ability to access capital should it be required. Issuing a significant amount of shares for cash as part of a private placement is not our first priority considering our current share price and the dilutionary impact on shareholders. As a result, we are actively pursuing the closure of the VanMag deal, the sale of non-core assets as well as a strategic investment in our South African and Botswana businesses by an established industry partner.

With the Penumbra mine commissioned and in production later this year, we then have the proposed development of the De Wittekrans project to advance, as well as other opportunities outside of South Africa. As we advance these we need to be mindful of the capital markets, our working capital position and our ability to fund these and other opportunities that continue to present themselves.

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In spite of Continental's significant increase in revenue, its share price has continued to fall over the past 12 months. How are you attempting to restore shareholder confidence?

CFO Maritz Smith
The share price performance of Continental Coal has like many of its peers in the thermal coal sector, experienced a significant fall and is trading at new record lows. This is despite significant progress made by the company in improving operating efficiencies at its mines and in advancing a new mine development. The current global economic outlook hasn't helped, nor has the bearish sentiment on the demand for thermal coal and the 20 to 30% fall in thermal coal prices over the past 12 months. Recent short term capital raisings completed by the company, as well as substantial short term and algorithmic trading in the stock, have not helped and have compounded the impact.

Undoubtedly the successful commissioning and first coal production from the Penumbra mine will be a key milestone and potential catalyst for a re-rating of the share price. Not only will it confirm our ability to bring such value-add projects into production but its cost profile and projected mine life will provide shareholders with a significantly long term and low cost cash generating asset within the portfolio that will have a marked impact on future group earnings. In parallel, results from our Botswana exploration program, and the finalisation of the De Wittekrans optimisation studies and associated investment decision and funding plan should move this project up the value curve and closer to becoming a reality. Securing further port allocation to cater for our long term growth plans is another major milestone that we expect will bring confidence back to Continental and its share price.

The transitional period from an explorer to a producer was by no means without its challenges and we feel proud with what we have achieved operationally.

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Continental Coal has recently unveiled a JORC compliant maiden inferred resource estimate and an increase in the exploration target at its projects in Botswana. Could you provide some context to these results and what are the future plans for the Botswana projects?

Executive Director Jason Brewer
A maiden inferred coal resource of 2.2 billion tonnes was established at the Kweneng Coal Project (CCC 100%) in Botswana and in addition to the JORC resource the company's independent geological consultants determined a further 5 billion tonne exploration target at Kweneng and a further 4 billion tonne exploration target at the Serowe Coal Project (CCC 100%). This is a significant increase on the initial 6 to 7 billion tonnes determined in late 2010.

Unfortunately the majority of coal resources across all three of the company's prospecting licenses cannot be classified as JORC compliant due to the widely spaced nature of the first phase of drilling, however we are now committed to a Phase 2 exploration drilling program that is expected to raise the level of confidence in the extent, continuity and quality of the JORC resource at Kweneng and potentially deliver a JORC resource at the Serowe Project.

Both projects are located close to established infrastructure and major operating coal mines. Serowe lies only 10 kilometers north of Botswana's only operating coal mine, the Morupule mine, while Kweneng lies 25 kilometers west of CIC Energy's Mmamabula coal project that is currently subject to a takeover bid by a major Indian group.

On the back of the latest upgrade in exploration target and maiden JORC resource, our Botswana projects have grown to become truly significant assets for the company and we now look forward to advancing discussions with several strategic parties that have already expressed an interest in participating in its exploration and long term investment activities.

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Thank you Don, Jason and Maritz.

For more information about Continental Coal, visit www.conticoal.com or call Jason Brewer on (+61 8) 9488 5220

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Competent Persons 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 Exploration Results and Coal Resources is based on data and 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.