Continental Coal Ltd

ABN 13 009 125 651 ASX Code CCC AIM Code COOL

31 January 2013

REPORT FOR THE QUARTER ENDING 31 DECEMBER 2012

Continental Coal Limited ("**Continental**" or "**the Company**") is pleased to provide its operations report for the quarter ended 31 December 2012.

COMPANY HIGHLIGHTS

- **The Company now operates 3 thermal coal mining operations in South Africa with a combined targeted ROM production rate of 2.8Mtpa of thermal coal**
- **First coal production and first export thermal coal sales completed from the Company's newly commissioned 3rd mine, the Penumbra Coal Mine**
- **Run-of-mine thermal coal production for the Quarter of 468,469 tonnes from the Ferreira, Penumbra and Vlakvarkfontein Coal Mines**
- **Thermal coal sales for the Quarter increased 10% quarter on quarter to 449,203 tonnes**
- **Run of mine coal production at the Ferreira Coal Mine increased by 44% quarter on quarter to 152,280 tonnes**
- **First drawdown of the ABSA Capital ZAR253m (approx. US$30m) seven year term loan facility completed with funds to be applied towards the outstanding capital, mine equipment and working capital costs of the Penumbra Coal Mine.**
- **Financial settlement of the first Penumbra Coal Mine hedge contracts completed with proceeds of ZAR3.0m received demonstrating the benefit of the Company's hedging program (664,550 tonnes of coal at an average price of ZAR1,057/t (approx. US$117/t))**
- **Optimisation work on the De Wittekrans Project, the proposed 4th mine development, demonstrated the opportunity to enhance the technical and financial fundamentals with proposed exports of 2.4Mtpa of thermal coal over an initial 30 year mine life**
- **Renewal of the Company's three coal Prospecting Licenses in Botswana by the Botswana Department of Mines for a further 2 years**
- **Settlement of the sale of the Company's interest in VanMag proceeds with initial payment of approx. US$1m received and the US$9m balance due this quarter**
- **Company continued with its negotiations with various parties in respect to an acquisition and/or strategic joint venture of specific operating and development projects, with the process to be concluded this quarter**

During the second quarter of the 2012/13 financial year, the Company commenced production from its Penumbra Coal Mine in South Africa. The commencement of underground coal mining activities at the Penumbra Coal Mine, the Company's third operating thermal coal mine, is a major milestone for the Company and all its stakeholders.

In addition, the Company aachieved several major operational milestones at its 3 coal mining operations in South Africa, at its proposed 4th mine development and at its exploration projects in Botswana.

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Continental Coal Ltd

OPERATIONS

Health and Safety

During the Quarter, no Lost Time Injuries were reported at any of the Company's mining and processing operations. Management, employees and the Company's contractors remain committed in ensuring continual improvement and focus on health and safety initiatives and policies across all its operations.

Coal Mine and Processing Operations

OPERATIONS PERFORMANCE FOR 3 MONTHS TO DECEMBER 2012				
	SEP 12 (Actual)	DEC 12 (Actual)	Change QTR on QTR (%)	FY 2013 YTD
ROM Production				
Vlakvarkfontein	422,253	**313,495**	**-26%**	**735,748**
Ferreira	105,757	**152,280**	**+44%**	**258,037**
Penumbra	0	**2,694**	**n.a.**	**2,694**
Total ROM Production	**528,010**	**468,469**	**-11%**	**996,479**
Feed to Plant				
Ferreira	161,648	**161,605**	**0%**	**323,253**
Penumbra	0	**3,260**	**n.a.**	**3,260**
Total Plant Feed	**161,648**	**164,865**	**+2%**	**326,513**
Export Yields				
Ferreira	69.8%	**66.2%**	**-5%**	**68.0%**
Penumbra	0.0%	**26.2%**	**n.a.**	**26.2%**
Domestic Sales	296,395	**351,264**	**+19%**	**647,659**
Export Sales	111,811	**97,939**	**-12%**	**209,750**
Total Coal Sales	**408,206**	**449,203**	**+10%**	**857,409**

During the Quarter, the Company's operations continued largely unaffected by the industrial action that was experienced in South Africa with strikes at a number of platinum, gold, iron ore, coal and diamond mines.

The Company experienced no striking action at any of its operations and during the Quarter successfully concluded its wage negotiations at its Ferreira Coal Mine and Delta Processing Operations without any days lost to strikes.

Run-of-mine ("ROM") thermal coal production of 468,469t was achieved from the Vlakvarkfontein, Ferreira and Penumbra Coal Mines over the Quarter. Total thermal coal sales of 449,203t were 10% above the previous quarters sales of 408,206t.

Vlakvarkfontein Coal Mine

The Vlakvarkfontein Coal Mine produced 313,495t for the Quarter, a 26% reduction on the record 422,253t ROM achieved in the previous quarter.

Total thermal coal sales during the Quarter from the Vlakvarkfontein Coal Mine were 351,264t, a 19% increase on the 296,395t in the previous quarter and 7% above budget. Record monthly sales of 153,072t were achieved in November 2012, improving the previous monthly record of 112,088t delivered in May 2012.

The above budget coal sales made during in the Quarter were achieved despite the national road transport strike in South Africa early in the Quarter, which meant that coal could not be transported from the mine site by Eskom's road haulage contractors for a 3 week period.

Sales during the quarter comprised 244,033t for Eskom and 107,431t of non-select coal sales.

The Vlakvarkfontein Coal Mine is forecast to exceed budgeted ROM production and thermal coal sales for FY2013.

Year to date mining costs at the Vlakvarkfontein Coal have averaged ZAR76/t ROM (approx. 24% below budget). Total FOT costs year to date have averaged ZAR125/sales tonne (approx. 11% below budget). Average sales price received year to date was ZAR181/t.

Ferreira Coal Mine

ROM coal production at the Ferreira Coal Mine for the December 2012 quarter totaled 152,280t. Quarter on quarter an increase of approx. 44% was achieved, from the 105,757t of ROM coal produced in the previous quarter.

The increase in ROM production followed the establishment of the new opencast mining operations in the adjacent and adjoining Prospecting Rights that were acquired in April and May 2012 and for which the Company received approval from the Department of Mineral Resources to develop in September 2012.

Current Mining Activities at the Ferreira Coal Mine

During the December 2012 quarter, ROM coal production increased from 38,433t in October 2012 to 57,551t in December 2012. ROM coal production in December 2012 was the highest monthly production to date in FY2013 and was achieved despite the seasonal holidays. Monthly ROM production at the Ferreira Coal Mine has now increased for the past 5 consecutive months.

ROM coal production for the Quarter, exceeded budget and exceeded the ramp up production profile advised in the September 2012 Quarterly Report, where 125,000 tonnes and 150,000 tonnes of ROM coal production were forecast for the December 2012 and March 2013 quarters.

Year to date mining costs at the Ferreira Coal Mine have averaged ZAR264/t ROM (approx. 12% below budget). Total FOR costs year to date have averaged ZAR563/sales tonne (approx. A$63/t and 12% below budget) with total FOB costs to Richards Bay Coal Terminal of ZAR689/sales tonne (approx. A$77/t).

Penumbra Coal Mine

During the Quarter first ROM production and first thermal coal sales were achieved at the Penumbra Coal Mine.

The decline development contractor, Murray & Roberts completed the decline development, with the twin declines to a full face of the C-Upper and C-Lower Coal Seams in mid December 2012.

ROM production of 2,694t was achieved during the Quarter from the Penumbra Coal Mine.

All underground production mining equipment was delivered to site during the Quarter, with the first of the two 14HM15 Joy Continuous Miners successfully commissioned and in operation by the end of the Quarter. First production coal of the C Lower Coal Seam was cut with the Continuous Miner on 17 December 2012.

The First of Two 14HM15 Joy Continuous Miners Underground at the Penumbra Coal Mine

ROM production is forecast to increase in the current quarter with the commissioning of the second Continuous Miner.

In FY 2013, sales of approx. 200,000t of a high-quality export thermal coal are forecast from the Penumbra Coal Mine at total free-on-board (FOB) costs of ZAR471/t (approximately US$55/t) and forecast to generate approx. US$17m in revenue this financial year.

Revenue from the Penumbra Coal Mine is forecast to rise to approx. US$45m in FY2014 on full year export thermal coal sales of 500,000 tonnes, and generating between US$15m and US$20m of forecast cashflow based on current export coal prices.

The Penumbra Coal Mine is approx. 90% complete with a total forecast cost to complete of ZAR325m (approx. A$39m). Remaining underground capital development and surface infrastructure is forecast to be completed by April 2013. The mine capital development is forecast to be completed within the approved budget with no identified cost overruns.

Delta Processing Operations

During the Quarter a total of 164,865t was processed through the Delta Processing Operations, 2% above the previous quarters 161,648t of ROM processed. Feed to the plant was primarily from the Ferreira Coal Mine, with 161,605t and 3,260t from the Penumbra Coal Mine.

Export yields of 66.2% for the Ferreira Coal Mine and 26.2% for the Penumbra Coal Mine were achieved. Export yield for coal from the Penumbra Coal Mine is forecast to increase in the current quarter towards the budgeted 67.0%.

Export thermal coal sales of 97,939t was railed and sold FOB Richards Bay Coal Terminal during the Quarter.

DEVELOPMENT PROJECTS

De Wittekrans Coal Project

During the Quarter the Company announced the preliminary results from optimisation work completed on the De Wittekrans Coal Project.

The results of the initial optimisation work are summarized below.

OPTIMISATION RESULTS COMPARED TO INITIAL FEASIBILITY STUDY RESULTS			
	Initial Feasibility Study Results[1]	**Optimisation Results**	**Change**
Reserves and Mine Life			
Mine Life	33 years	**33 years**	-
Saleable Reserves	43.8Mt	**43.8Mt**	-
Gross In Situ Resources	167.0Mt	**167.0Mt**	-
Run of Mine (ROM) Production			
Annual ROM Production	3.6Mt	**3.6Mt**	-
Total Open Cast ROM Production	6.1Mt	**6.1Mt**	-
Total Underground ROM Production	110.0Mt	**110.0Mt**	-
Primary Wash Plant Yields (%)			
Open Cast Primary Yield	29.16%	**78.00%**	+167%
Underground Primary Yield	26.26%	**75.00%**	+186%
Coal Sales			
Annual Domestic Coal Sales	1.7Mt (Eskom)	**-**	-
Annual Export Coal Sales	0.8Mt (6 000 kcal Export)	**2.4Mt (5 000kcal Export)**	+200%
Forecast Sales Revenue			
Annual Domestic Coal Sales	ZAR 306m	**-**	-
Annual Export Coal Sales	ZAR 645m	**ZAR 1,292m**	+100%
Total Annual Sales Revenue	ZAR 951m	**ZAR 1,292m**	+37%
Estimated Operating Expenses			
Average Unit Operating Expenses	ZAR 140/t ROM	**ZAR 251/t ROM**	+76%
Average Operating Expenses	ZAR 614/t Export	**ZAR 367/t Export**	-30%
Estimated Capital Costs			
Total Capital Costs to First Production	ZAR 342m	**ZAR 161m**	-53%
Surface Infrastructure and Siding	ZAR 554m	**ZAR 444m**	-20%
Coal Wash Plant	ZAR 308m	**-**	-
Underground Development	ZAR 838m	**ZAR 838m**	0%
Forecast Cashflow			
Annual Free Cashflow After Tax	ZAR 215m	**ZAR 276m**	+28%

Assumes ZAR:USD of 8.75:1, Eskom coal sales at ZAR9.00/GJ, 6 000kcal API4 coal price of US$90/t and a 30% discount in pricing to API4 for the 5 000kcal Export product

[1] Feasibility Study Results have been updated based on the revised exchange rates and export thermal coal prices above.

The optimisation work has confirmed the potential to substantially improve the project economics and reduce the capital expenditure identified in the 2011 Feasibility Study to bring the De Wittekrans Coal Project into production.

The work has identified the opportunity to develop the De Wittekrans Coal Project to be a major exporter of up to 2.4Mtpa of a thermal coal product, ideally suited for the Asian Coal Market, over an initial 30 year mine life. As a result total annual sales revenue have been forecast to increase by over 35% to up to approx. US$145m p.a. and annual forecast free cashflow after tax increases by approx 30% to up to approx. US$30m.

The work has demonstrated that the De Wittekrans Coal Project is a significant asset that has the potential to become the Company's "flagship" project.

Based upon the preliminary results of the optimisation and infrastructure study work completed, the Company plan to appoint an independent technical consultant to update the 2011 Feasibility Study. The Company believes that the results from the initial optimisation work done to date have indicated the potential for further improvements to be achieved through this process.

EXPLORATION

Botswana

During the Quarter, the Company announced that the Botswana Department of Mines had approved the renewal of the Company's three coal Prospecting Licenses in Botswana for a further 2 years.

Through its Botswana subsidiary, Weldon Investment (Pty) Ltd, the Company holds three coal prospecting licenses that cover an area of approx. 475km². The Prospecting Licenses, PL339/2008 and PL340/2008 are together known as the Serowe Coal Project, whilst PL341/2008 is known as the Kweneng Coal Project.

The Company's licenses are considered very well located strategically, with the Serowe Coal Project located immediately north of Botswana's only major producing thermal coal mine, the Morupule Coal Mine, whilst the Kweneng Project is 25kms west of CIC Energy's Mmamabula Coal Project that was recently acquired by Jindal Steel and Power Ltd of India for US$116m.

In August 2012 following completion of its Phase 1 drilling program, the Company announced a maiden JORC Compliant Inferred Resource of 2.2 Billion Tonnes on the Kweneng Coal Project and a further Exploration Target in excess of 9 Billion Tonnes[1] across both the Kweneng and Serowe Coal Projects.

The renewal of the Prospecting Licenses for a further 2 years now allows the Company to finalise its proposed Phase 2 exploration drilling program across both the Kweneng and Serowe Coal Projects with the principle aims being to increase existing resources, increase the level of confidence in the extent, continuity and quality of the known resources as well as to convert a significant portion of the Exploration Target into JORC compliant resources on the Serowe and Kweneng Coal Projects.

[1] It should be noted that the Exploration Target at the Serowe and Kweneng Projects is conceptual in nature as there has been insufficient exploration to define a Resource and that it is uncertain if further exploration will result in the determination of a Resource. To delineate a resource that is JORC Compliant will require significant more levels of drilling.

The renewal of the Prospecting Licenses will also allow the Company to advance its discussions with several strategic parties that have already expressed an interest in participating in the Company's exploration activities across the Serowe and Kweneng Coal Projects.

CORPORATE

Settlement of VanMag and Acquisition of Minority Shareholders In Mashala Resources

During the Quarter, the Company announced that settlement of the sale of its shareholding in Vanadium and Magnetite Exploration and Development Co (SA) (Pty) Limited ("VanMag") had proceeded with an initial non-refundable payment by the purchaser of approx. US$1m. Final settlement of the US$9m balance is to be made in the current quarter.

The proceeds received were used to meet part of the ZAR76m purchase price for the outstanding minority interests in Mashala Resources ("Mashala") not already held by the Company's principal subsidiary in South Africa. Final payment of the outstanding interests is scheduled on 28 February 2013 and is to be made from the US$9m due from the final settlement of the VanMag transaction.

ABSA Capital Debt Facilities

The Company completed the first drawdown of its secured debt project finance facility with ABSA Capital. The ZAR253m (approx. US$30m) seven year term loan facility and ZAR17.5m (approx. US$2.1m) standby facility are limited recourse debt facilities that are to be used to fund the outstanding capital, mine equipment and working capital costs associated with the development and commissioning of the Penumbra Coal Mine.

An initial drawing of ZAR132m was made by the Company during the Quarter. Further drawings of the term loan facility are scheduled in the current quarter.

Repayment of the term loan facility is scheduled to commence in August 2014, with subsequent quarterly repayments averaging US$1.3m to be made from operating project cashflow up to November 2019.

As part of the ABSA Capital Debt Facilities the Company has implemented a coal and foreign exchange hedging program to mitigate its exposure to a sustained fall in US$ coal prices or an appreciation of the ZAR:US$. The hedging program comprises 664,550t of coal over the life of the term loan facility at an average price of ZAR1,057/t. As at the end of the Quarter the hedging was approx. ZAR8.6m (A$0.9m) in-the-money. The Company has further entered into an interest rate swap to mitigate its exposure to a rise in interest rates.

During the Quarter, financial settlement of 12,900t of coal hedge contracts was completed and a hedging gain of ZAR3.0m (approx. A$0.36m) was realised.

Acquisition and Direct Investment in the Company's South African Coal Assets

During the Quarter a due diligence and bidding process was completed with a number of Indian based coal and power utility companies, major global commodity trading and private equity groups with offers received for the Company's interest in its South African business and for acquisition and/or joint venture of specific operating and development projects.

Negotiations in respect to these offers continued throughout the Quarter.

In addition following the Company's announcement of the positive optimisation study on the De Wittekrans Coal Project in November 2012, a number of further interested parties approached the Company in regards to a potential long-term off-take agreement, strategic partnership and funding and/or joint venture arrangement on the project.

The Company has been encouraged by the high level of interest in the De Wittekrans Coal Project from these parties and is currently progressing its discussions with these parties.

An update is planned to be made in the current quarter on these discussions and negotiations.

FINANCIAL AND OPERATIONAL PERFORMANCE

Summary financial and operating results for the Ferreira, Penumbra and Vlakvarkfontein coal mining operations for the FY2013 year to date are provided below.

Detailed financial data for the 6 month period up to 31 December 2012 will be included in the Half Yearly Results and audited financial review to be released on or before 28 February 2013.

MINE OPERATIONAL AND FINANCIAL PERFORMANCE 2013 FINANCIAL YEAR TO DATE			
	Ferreira Coal Mine	**Penumbra Coal Mine**	**Vlakvarkfontein Coal Mine**
OPERATIONS (tonnes)			
ROM Production	258,037	2,694	735,748
Feed to Plant	161,648	3,260	-
Export Yields	68.0%	26.2%	-
Coal Sales			
Export Sales	208,896	854	-
Eskom Sales	-	-	540,328
Other Sales	-	-	107,331
Total Sales	208,896	854	647,659
FINANCIAL (ZAR'000)			
Revenue			
Export Sales	144,792	3,671	-
Domestic Sales	-	-	113,149
Other Sales	-	-	3,827
Total Revenue	144,792	3,671	116,976
Production Costs			
Mining Costs	68,104	1,826	55,769
Processing Costs	22,857	177	12,102
Materials Handling	3,060	50	-
Indirect Costs	6,092	2,845	2,368
Export Costs	26,379	126	74
Bought in Coal Costs	625	-	-
Administration Costs	4,895	-	5,126
Stock Movement	12,516	-	(1,878)
Total Production Costs	144,528	5,024	73,562
Gross Profit	263	(1,353)	43,415

Financial performance at the Ferreira Coal Mine reflects the increased costs associated with the new mine development into the adjacent and adjoining Prospecting Rights as well the impact of the delay in obtaining the Section 102 application which limited production in the September

2012 quarter. Sales for the quarter were impacted with only 12 of a budgeted 15 trains railed to RBCT. The financial performance of the Ferreira Mine is forecast to improve as steady state operations are achieved this quarter.

Financial performance at the Penumbra Coal Mine reflects commencement of ROM coal production and first thermal coal sales late in the Quarter. The Penumbra Coal Mine is forecast to be cashflow positive this current quarter with forecast ROM coal production of 95,000t increasing to 185,000t in the June quarter. The Vlakvarkfontein Coal Mine is forecast to continue to perform strongly in the current quarter with thermal coal sales to Eskom of approx. 300,000t.

For the Quarter, based on the unaudited management accounts, the Company reported sales revenue of A$14.4m, total production costs of A$12.7m and a gross profit of A$1.7m. Revenue for the Quarter of A$14.4m was 7.7% lower than the previous quarter, total production costs were in line with the previous quarter. Group EBITDA year to date of A$0.9m was achieved. EBITDA is forecast to improve over Q3 2013 and Q4 2013 with the Penumbra Coal Mine increasing production and the Ferreira Coal Mine achieving steady state production in the newly developed adjoining Prospecting Rights.

The Company continues with its various initiatives that it has implemented in the previous quarters to counter the impact of lower export thermal coal prices. The Company believes that these initiatives will result in improved earnings in Q3 2013 and Q4 2013.

Total cash and cash equivalents as at the end of the Quarter was approx. A$4m. The Company has available approx. A$13m under the ABSA Capital Debt Facilities to fund outstanding capital expenditure and working capital costs associated with the development and commissioning of the Penumbra Coal Mine. During the Quarter the Company progressed discussions with financiers regarding the establishment of a Standby Funding facility for up to A$15m, and a refinancing of its existing convertible note facilities.

Yours faithfully

Don Turvey
Chief Executive Officer

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About Continental Coal Limited

Continental Coal Limited (ASX:CCC/AIM: COOL/US-OTCQX:CGFAY) is a South African thermal coal producer with a portfolio of projects located in South Africa's major coal fields including three operating mines, the Vlakvarkfontein, Ferreira and Penumbra Coal Mines, are set to produce at an annualised rate of 2.8Mtpa of thermal coal for the export and domestic markets. The Company's first underground mine, the Penumbra Coal Mine, commenced development in September 2011 and produced first coal in November 2012. In 2011, a Feasibility Study was also completed on a proposed fourth mine, the De Wittekrans Coal Project and further optimisation studies completed in 2012. The Company has further concluded strategic off-take and funding agreements with EDF Trading for its export thermal coal production, signed a joint development agreement with KORES, Korea Resources Corporation and secured debt funding from ABSA Capital to fund its growth.

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.

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.