Continental Coal Ltd

31 January 2014

REPORT FOR THE QUARTER ENDED 31 DECEMBER 2013

Continental Coal Limited ("**Continental**" or "**the Company**") is pleased to provide its operations report for the quarter ended 31 December 2013.

COMPANY HIGHLIGHTS

- Operations
  - **ROM thermal coal production for the quarter of 573,253, a 22% increase on 2012. Year to date ROM production of 1,199,439, an increase of 20% on 2012**
  - **Sales for the quarter of 461,918t, a 3% increase on 2012 with year to date sales 21% higher than 2012**
  - **61% increase in export sales for the quarter on 2012 with year to date export sales 53% higher than 2012**
  - **Penumbra production expected to achieve design capacity in April 2014**
  - **Vlakvarkfontein on track to meet production and cost guidance**

- Corporate
  - **Execution of binding term sheet for $5 million bridge finance to provide near term working capital to allow for a broader recapitalization and restructure of the Company's financial arrangement's to be pursued**
  - **Board and management changes to be implemented subject to closing of the bridge funding arrangements**

1. OPERATIONS

1.1 Health and Safety

During the Quarter, four Dressing Station Case ("DSC") accidents were reported at the Company's mining and processing operations – all four DSC accidents were relatively minor incidents reported at the Penumbra Underground Mine with none reported at the Vlakvarkfontein Mine and Delta processing facility. Two reportable dam overflowing related incidents have also occurred at the Penumbra Underground Mine and processing facility during the quarter under review due to excessive rain. The incidents had no material impacts and their causes are being addressed.

1.2 Operational performance

Operational performance (tonnes)				
	Quarter ended 31 December 2013	Quarter ended 31 December 2012	6 months ended 31 December 2013	6 months ended 31 December 2012
Run of Mine (ROM) production				
Vlakvarkfontein	333,775	313,495	728,983	735,748
Ferreira	110,707	152,280	247,129	258,037
Penumbra	128,771	2,694	223,327	2,694
Total ROM production	**573,253**	**468,469**	**1,199,439**	**996,479**
Feed to plant				
Ferreira	116,436	161,605	269,670	323,253
Penumbra	120,872	2,694	216,401	2,694
Total feed to plant	**237,308**	**164,299**	**486,071**	**325,947**
Export yields				
Ferreira	66.9%	66.2%	72.0%	68.0%
Penumbra	58.2%	26.2%	55.4%	26.2%
Export coal buy-in	**19,024**	**-**	**20,953**	**-**
Domestic sales	304,676	351,264	712,624	647,659
Export sales	157,242	97,939	320,696	209,750
Total sales	**461,918**	**449,203**	**1,033,320**	**857,409**

Total ROM coal production for the Quarter of 573,253t was achieved from the Vlakvarkfontein, Ferreira and Penumbra Coal Mines. Total ROM production increased by 22% from the comparable quarter in 2012 and increased by 20% for the 6 months ended 31 December 2012.

Feed to the Delta Processing Operations for the Quarter of 237,308t represented a 44% increase to the comparable quarter in 2012 and also a 49% increase for the 6 months ended 31 December 2013.

Ferreira achieved a 66.9% export yield for the quarter which was in line with the comparative quarter in 2012.

Export yields at Penumbra have shown a steady increase during the past 6 months with the average yield of 58.2% recorded for the quarter. Contamination from sand stone rolls encountered at Penumbra had a negative impact on the production and export yield.

1.3 Vlakvarkfontein Coal Mine

Vlakvarkfontein Coal Mine produced 333,775t ROM for the Quarter, which was 6% higher than the comparable quarter in 2012 and on a year-to-date basis very similar to the production achieved for the 6 months ended 31 December 2012. ROM production for the 6 months ended 31 December 2013 however exceeded the budget of 692,250t by 5%. An average strip ratio of 2.13:1 was achieved for the Quarter (2.1:1 YTD).

Total thermal coal sales during the Quarter from the Vlakvarkfontein Coal Mine were 304,676t and comprised 266,051t to Eskom and 38,625t of non-select coal. Sales for the 6 months ended 31 December 2013 of 579,432t to Eskom were 11% above budget with non-select coal sales of 133,192t being 52% below budget.

Free-on-Truck (FOT) costs for the quarter were ZAR154/t (US$14.00) which was 7% lower than the budgeted cost of ZAR166/t (US$15.10) for the quarter. Free-on-Truck (FOT) costs for the 6 months ended 31 December 2013 were ZAR151/t (US$13.73) which was 2% lower than the budgeted cost of ZAR153/t (US$13.91) for the period.

Vlakvarkfontein remains on target to achieve its planned production of 1.3 Mt ROM at a cost of ZAR152/t (US$13.82) for FY2014.

1.4 Ferreira Coal Mine

ROM coal production at the Ferreira Coal Mine for the Quarter, which was its last producing quarter, totaled 110,707t which was 76% above the budgeted ROM tonnes for the quarter. Ferreira produced a total of 247,129 ROM tonnes for the 6 months ended 31 December 2013 exceeding the planned ROM tonnes for the period with 49,126t. An average strip ratio of 2.5:1 was achieved for the Quarter (3.1:1 YTD).

Export yields for Ferreira averaged 66.9% during the quarter and 72.0% for the 6 months ended 31 December 2013.

Mining costs of ZAR147/t (US$13.36) ROM with Free-on-Board (FOB) costs of ZAR623/t (US$56.64) were recorded for the quarter. Mining cost for the 6 months ended 31 December 2013 were ZAR190/t (US$17.27) with FOB costs of ZAR641/t (US$58.27) which were a 3% improvement on the ZAR662/t (US$60.18) average FOB recorded for the 2013 financial year.

Mining at Ferreira has now been terminated with only inventory clean-up to be completed. The Company is finalising the closure plan with all stakeholders and will commence the final rehabilitation of the mine site on approval of the closure plan by all stakeholders.

1.5 Penumbra Coal Mine

The commissioning of the permanent ventilation shaft in August 2013 was the last remaining infrastructure item required to reach the design capacity of 63,000 tonnes per month. With adequate ventilation in place since early September 2013, both continuous miner sections were fully operational and able to be deployed in the planned mining outlay of 9 road production sections. Production rates increased to an average of 31,518t ROM per month during the quarter ended 30 September 2013 with 51,000t ROM produced in October 2013. The availability of the continuous miners during November 2013 had a negative impact on the production build-up towards steady state production of 63,000t ROM per month. The down-time of the continuous miners was caused by the malfunction of the control valve circuit which resulted in water contaminating the hydraulic oil. Operational management, together with the original equipment manufacturer (OEM) managed to resolve this during late November 2013. Stone rolls that are displacing the coal seam in the current mining area are also impacting on the production rate and the delivered yield due to added contamination. Management is currently reviewing the planned production lay-out and evaluating opportunities to amend the lay-out to mitigate the impact of the stone rolls on the production rate of the continuous miners.

A drill-and-blast section was added to the two continuous miner sections during the quarter which will add additional flexibility to achieve and maintain the planned production rate. Each continuous miner section currently has two shuttle cars each with the third shuttle cars expected in February 2013, creating further flexibility for steady state production.

ROM coal production at the Penumbra Coal Mine for the Quarter totaled 128,771t, a 36% increase on the previous quarter's ROM production of 94,556t. Production build-up at Penumbra is now forecast to achieve its design capacity of 63,000t ROM per month by April 2014.

Export yields at Penumbra have shown a steady increase during the quarter with the average yield of 58.2% recorded, a 13% improvement on the previous quarter's yield of 51.5%. The yield is expected to improve to the planned 62% with the increase in production and the mitigation of the additional contamination caused by the stone rolls.

Mining costs of ZAR158/t (US$14.36) ROM were similar to the costs achieved in the prior quarter with the FOB costs of ZAR676/t (US$61.45) recorded for the quarter, a 5% increase on the FOB costs of the previous quarter.

Penumbra is forecasting the delivery of 570,000t ROM during the 2014 financial year at a FOB cost of R580 (US$53) per sales tonne.

2. DEVELOPMENT PROJECT

2.1 De Wittekrans Coal Project

The Mining Right for De Wittekrans was granted in September 2013 and the Company expects the Integrated Water Use License (IWUL) to be granted in Q2 2014. The South African Department of Mineral Resources (DMR) has informed the Company that they received an appeal in terms of Section 96 of the Mineral and Petroleum Resource Development Act (MPRDA) to the Mining Right that has been awarded for De Wittekrans. Section 96 of the MPRDA allows interested and affected parties to appeal against an approved mining right on various grounds and also sets out the appeal process. The appeal was lodged by the Federation for a Sustainable Environment on behalf of surface right owners over which area the mining right was granted. They are appealing the process followed in application and awarding of the mining right as well as the ability of the proposed mining activity to comply with certain environmental and socio-economic requirements within the MPRDA and approved Environmental Management Program

(EMPR). The Company, through its legal counsel, is responding to the appeal in terms of the process set out in Section 96 of the MPRDA. The IWUL application will continue while this appeal is being opposed.

3. EXPLORATION PROJECTS

3.1 Botswana Coal Projects

Negotiations on the previously announced earn-in agreement on Prospecting licences 339/2008 and 341/2008 were terminated during the quarter. The Company is in early stage discussions with 2 unrelated parties to reach a commercial agreement on 2 of the Prospecting licences that have been awarded to the Company. The third license is in the process to be relinquished back. Further detail will be made available as progress is made in the negotiations.

4. CORPORATE

4.1 Bridge finance

The Company has executed a binding term sheet with UK corporate advisory firm, Empire Equity Limited ("Empire Equity"), to provide $5 million ("Investment Amount") of limited recourse bridge funding. The funds raised will be applied towards general operating expenses and payments to creditors of the Company that do not otherwise agree to standstill agreements, allowing the Company to continue trading as a going concern while it continues to seek to undertake a broader recapitalisation and restructure of the Company and its financial arrangements.

Subject to finalising definitive documentation, Empire Equity and/or its nominees (the "Investors") will invest in 7.5 million unsecured convertible promissory notes ("Notes") with a face value of A$1.00 at a discounted issue price of A$0.6667 per Note and with a maturity date of 4 months post closing. The Investors have also undertaken to assist the Company in undertaking a rights issue currently proposed to raise up to A$28 million at an offering price of A$0.01 per share (terms to be finally determined by the Company and the underwriter engaged), including procuring underwriting of the rights issue, with proceeds to be used to settle amounts owed by the Company to various existing convertible note holders and other major creditors. The Notes are only redeemable upon successful completion of the rights offer, being full subscription including underwriter subscriptions, upon which the Investors will have the option to redeem the Notes by either conversion into shares in the Company (subject to obtaining necessary shareholder approvals) at a conversion price equal to the rights offering price or request payment of the A$7.5 million face value in cash. The Investors are also required to procure standstill agreements for 90 days from convertible note holders and other major creditors of the Company to allow for the completion of the rights offering or other recapitalization.

The Investors will receive a 6% fee on the Investment Amount as well as 70 million options, subject to shareholder approval, for providing the $5 million. Each option will be exercisable at the rights offering price with 3 years to expiry. In the event that shareholder approval is not obtained to deliver the options, $500,000 in cash will become payable to the Investors in lieu of the options. 100 million shares will also be issued to a settlement agent and held in escrow as collateral, either to be sold in the event of default with proceeds to be paid to the Investors, or if no default occurs, transferred to applicants under the rights issue.

The Company is still seeking to finalise closing of the $5 million of bridge funding from Empire Equity. The Investors have advised that fund transfers have been initiated and the Company is awaiting confirmation from its escrow agent of the receipt of funds. The Company will further update the market as developments occur

4.2 Secured debt

The prepayment by EDF Trading of a Coal supply Agreement in 2011 has been restructured into a financial loan repayable through 24 monthly instalments commencing in July 2014. The loan bears interest at 10% per annum and interest will be capitalized until June 2014. Executing binding legal agreements for this restructure is dependent on the recapitalisation of the Company and EDF being provided a second ranking security over the Penumbra underground coal mine and its assets.

The ABSA Project Finance facility secured over Penumbra Coal Mine is currently in default due to the shares of the Company being suspended on the ASX and AIM. ABSA is working with the Company during this recapitalisation process but has reserved all of their rights while the recapitalisation in under way.

4.3 Proposed listing on the Johannesburg Stock Exchange

The proposed listing has been postponed until such time as the recapitalisation of the Company has been completed.

4.4 Changes to the Board and Executive management

A condition to providing the funding is the resignation or termination of the CEO, CFO and Non-Executive directors Mike Kilbride and Johan Bloemsma on closing. To join the Board on closing of the transaction and subject to any required regulatory approvals are:

- Peter Landau, who is a former executive director of the Company, having resigned in May 2013. It is also noted that companies of which Mr Landau is a director or major shareholder are significant trade creditors or the Company, being owed approximately $2.8 million;
- Paul D'Sylva, who is the Venture Partner of Empire Equity;
- Mike Gibson, who is currently the CEO of Genet South Africa, a mineral resources and mining service company; and
- a nominee from the creditors group.

Further details on the proposed new directors, including information required under the AIM rules for companies, will be provided on or prior to their appointment.

The management structure of the Company will be finalized after closing of the funding and further consideration by the new board.

4.5 ASX and Aim share trading suspension

The shares of the Company will remain suspended from trading on both the ASX and AIM markets. The reconstituted Board of Directors will consider a decision on seeking to lift the suspension of the shares following the closing of the transaction and pending the provision of further clarification of its financial position to the market.

Yours faithfully

Don Turvey
Chief Executive Officer

For further information please contact:

Media (Australia)
David Tasker
Professional Public Relations
T: +61 8 9388 0944

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

Joint Brokers
Jeremy Wrathall / Chris Sim
Investec Bank plc
T: +44 20 7597 4000

Jonathan Williams
RFC Ambrian Ltd
T : +44 203 440 6817

About Continental Coal Limited

Continental Coal Limited (ASX:CCC/AIM: COOL) 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, producing approx. 2.8Mtpa of thermal coal for the export and domestic markets. A Feasibility Study was also completed on a proposed fourth mine, 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 secured debt funding from ABSA Capital to fund its growth.

Competent Persons Statement

The information in this release 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 and holds a Ph.D from the University of the Witwatersrand (South Africa).*

The information in this release that relates to Coal Resources on Penumbra, De Wittekrans, Knapdaar, 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.

The information in this release that relates to Coal Resources on Project X and Vaalbank is based on coal resource estimates completed by Mr. Coenraad van Niekerk, a full time employee of Gemecs (Pty) Ltd. Mr. van Niekerk is a member in good standing of the South African Council for Natural Scientific Professions (SACNASP No. 400066/98) as well as a Member and Fellow of the Geological Society of South Africa. He has more than 38 years' experience in the South African Coal and Minerals industries.

The information in this release that relates to Coal Resources on Mooifontein is based on coal resource estimates completed by Mr. Dawie van Wyk, a full time employee of Geocoal services (Pty) Ltd. Mr. van Wyk is a member in good standing of the South African Council for Natural Scientific Professions (SACNASP No. 401964/83) as well as a Member and Fellow of the Geological Society of South Africa. He has more than 30 years' experience in the South African Coal and Minerals industries.

The Coal Reserves on Vlakvarkfontein, De Wittekrans and Penumbra is based on reserve estimates completed by Eugène de Villiers. Mr. de Villiers is a graduated mining engineer (B.Eng) Mining from the University of Pretoria and is professionally registered with the Engineering Council of South Africa (Pr.eng no – 20080066). He is also a member of the South African Institute of Mining and Metallurgy (SAIMM Membership no. 700348) and the South African Coal Managers Association (SACMA Membership no. 1742). Mr. de Villiers has been working in the coal industry since 1993 and has a vast amount of production and mine management as well as project related experience.

Forward Looking Statement

This document includes certain statements that may be deemed "forward-looking statements" and information. All statements in this document, other than statements of historical facts, that address future production, reserve potential, exploration drilling, exploitation activities and events or developments that the Company expects to take place in the future are forward-looking statements and information. Although the Company believes the expectations expressed in such forward-looking statements and information are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements and information. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, drilling and development results, production rates and operating costs, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those stated.