

30 April 2014

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## REPORT FOR THE QUARTER ENDED 31 MARCH 2014

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Continental Coal Limited ("**Continental**" or "**the Company**") is pleased to provide its operations report for the quarter ended 31 March 2014.

### COMPANY HIGHLIGHTS

- **Operations**
  - Significant revenue received from the ABSA Hedge during the Quarter
  - Penumbra production on track to achieve design capacity
  - Vlakvarkfontein on track to meet production and cost guidance
- **Corporate**
  - Completion of a A\$5 million bridge finance facility and broader recapitalisation and restructuring of the Company
  - The Investors of the bridge finance facility have also undertaken to assist the Company in undertaking a rights issue currently proposed to raise up to A\$31.7 million
  - Following the closing of the bridge finance facility in February 2014, Board and management changes were implemented



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Interim Executive Chairman: Dr Paul D'Sylva Interim Executive Director: Mr Peter Landau  
Non-Executive Directors: Mr Connie Molusi and Dr Lars Schernikau

## 1. OPERATIONS

### 1.1 Health and Safety

During the Quarter, three Dressing Station Case ("DSC") accidents were reported at the Company's mining and processing operations – all three DSC accidents were relatively minor incidents reported at the Penumbra Underground Mine with none reported at the Vlakvarkfontein Mine and Delta processing facility. The accidents had no material impacts and their causes are being addressed.

### 1.2 Operational performance

Operational performance (tonnes)				
	Quarter ended 31 March 2014	Quarter ended 31 March 2013	9 months ended 31 March 2014	9 months ended 31 March 2013
<b>Run of Mine (ROM) production</b>				
Vlakvarkfontein	270,141	412,764	999,124	1,148,512
Ferreira	-	165,917	247,129	423,954
Penumbra	119,123	52,876	342,450	53,567
<b>Total ROM production</b>	<b>389,264</b>	<b>631,557</b>	<b>1,588,703</b>	<b>1,626,033</b>
<b>Feed to plant</b>				
Ferreira	-	163,926	269,670	488,693
Penumbra	123,098	58,606	339,499	61,300
<b>Total feed to plant</b>	<b>123,098</b>	<b>222,532</b>	<b>609,169</b>	<b>549,993</b>
<b>Export yields</b>				
Ferreira	-	71.3%	-	69.6%
Penumbra	55.9%	38.1%	55.8%	37.8%
<b>Export coal buy-in</b>	<b>10,831</b>	<b>-</b>	<b>31,784</b>	<b>-</b>
<b>Domestic sales</b>	<b>327,727</b>	<b>349,911</b>	<b>1,040,351</b>	<b>997,652</b>
<b>Export sales</b>	<b>121,157</b>	<b>113,760</b>	<b>441,853</b>	<b>323,510</b>
<b>Total sales</b>	<b>448,884</b>	<b>463,671</b>	<b>1,482,204</b>	<b>1,321,162</b>

Total ROM coal production for the Quarter of 389,264t was achieved from the Vlakvarkfontein and Penumbra Coal Mines. Mining at the Ferreira Coal Mine ceased last quarter as previously reported.

Feed to the Delta Processing Operations for the Quarter of 123,098t was achieved from the Penumbra Coal Mine and was similar to the last quarter feed for this mine (being

120,872t). The increase from the comparable quarter in 2013 and on a year-to-date basis for the 9 months ended 31 March 2013 is in line with the ramp up of the Penumbra Coal Mine.

Export yields at the Penumbra Coal Mine have shown a steady increase during the past 9 months with the average yield of 55.8% recorded for the quarter.

Domestic sales remain similar to the previous quarter, the comparable quarter in 2013 and on a year-to-date basis.

### **1.3 Vlakvarkfontein Coal Mine**

Vlakvarkfontein Coal Mine produced 270,141t ROM for the Quarter, which is lower than the comparable quarter in 2013 and on a year-to-date basis. The reduced ROM is due to only mining what can be sold and reducing the stockpiling as the coal has been burning.

An average strip ratio of 2.11:1 was achieved for the Quarter (2.18:1 YTD).

Total thermal coal sales during the Quarter from the Vlakvarkfontein Coal Mine were 327,724t and comprised 258,042t to Eskom and 69,682t of non-select coal. Sales for the 9 months ended 31 March 2014 of 837,474t to Eskom were above budget with non-select coal sales of 202,874t being below budget.

Free-on-Truck (FOT) costs for the quarter were ZAR115/t (US\$11.17) which was lower than the budgeted cost of ZAR131/t (US\$12.72) for the Quarter. FOT costs for the 9 months ended 31 March 2014 were ZAR153/t (US\$14.86) which was the same as budgeted for the period.

Vlakvarkfontein remains on target to achieve its planned production of 1.3 Mt ROM at a cost of ZAR153/t (US\$14.86) for FY2014.

### **1.4 Ferreira Coal Mine**

Inventory clean-up at the Ferreira Coal Mine has been completed. The rehabilitation work will commence upon finalisation of the closure plan and appointing contractors.

### **1.5 Penumbra Coal Mine**

ROM coal production at the Penumbra Coal Mine for the Quarter totaled 119,123t. As previously reported the Company has encountered stone rolls that are displacing the coal seam in the current mining area and this is impacting on the production rate and the delivered yield due to added contamination. Management, in conjunction with mining consultants, have been reviewing the planned production lay-out in order to mitigate the impact of the stone rolls on the production rate of the continuous miners.

Export yields at Penumbra have been steady during the quarter with the average yield of 55.9% recorded. 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 ZAR166/t (US\$16.12) ROM were similar to the costs achieved in the prior quarter with FOB costs of ZAR745/t (US\$69.97) recorded for the Quarter. Total FOB costs will likely reduce in the coming months given the forecast increase in production.

Penumbra is forecasting the delivery of 570,000t ROM during the 2014 financial year at a FOB cost of ZAR680 (US\$63) per sales tonne.

The Company received ZAR 1.7 million revenue for the quarter from the ABSA forward hedging contract at Penumbra.

## **2. DEVELOPMENT PROJECT**

### **2.1 De Wittekrans Coal Project**

The Integrated Water Use License (IWUL) application has been submitted and the Company awaits approval expected Q2 2014.

During the quarter site specific geological models with wash results were built to show the separate upper and lower extents of the B and C seams within proposed shaft site positions.

## **3. EXPLORATION PROJECTS**

### **3.1 Botswana Coal Projects**

The Company is in advanced discussions in respect of the two remaining Prospecting licenses (PL 340/2008 and PL 341/2008). Further details will be advised when negotiations are concluded. PL339/2008 was relinquished during the quarter.

## **4. CORPORATE**

### **4.1 Bridge finance and recapitalisation**

During the Quarter the Company completed a A\$5 million bridge finance facility with UK corporate advisory firm Empire Equity Limited and has undertaken a broader recapitalisation and restructure of the Company and its financial arrangements. The Company made key payments to current creditors and negotiated a 3 month standstill period to recapitalize the Company and restructure its financial arrangements. Upon completion of the bridging finance, the Company implemented changes to its Board of Directors as announced during the quarter.

The Investors of the bridge finance facility (being Empire Equity and/or its nominees) have further undertaken to assist the Company in undertaking a rights issue currently proposed to raise up to A\$31.7 million with terms to be determined by the Company and the underwriter engaged. The proceeds will be used to settle amounts owed by the Company to various existing convertible note holders and other major creditors.

The management structure of the Company moving forward is still being considered by the reconstituted Board, but will initially be overseen by Mr Landau and Dr D'Sylva in temporary executive roles as well as current COO Mr Johan Heystek at an operational level.

Importantly, the Company will focus on and ensure stability at an operational level with the Company's current mining operations whilst saving significant costs at the corporate level. As part of the restructure process, Continental will look to strengthen its BEE credentials in South Africa and generate additional synergies with key strategic partners including Eskom, Transnet and RBCT to ensure a significant growth profile moving forward.

The reconstituted Board of Directors have complete faith in the assets and operational management of the Company, and are optimistic that a range of strategic and financing opportunities will be advanced so as to stabilise the Company's balance sheet and focus on significant growth following completion of a proposed rights issue.

The reconstituted Board of Directors has received interest from a number of globally recognised energy investors/traders to participate in the Company going forward, and terms are currently being negotiated.

The company is well advanced in finalising its proposed underwritten rights issue and will shortly be providing full details to its shareholders.

#### **4.2 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.

#### **4.3 ASX and Aim share trading suspension**

As at the date of this report Continental's securities on both the ASX and AIM markets continue to be suspended. The reconstituted Board of Directors will consider a decision on seeking to lift the suspension of the shares pending the provision of further clarification of its financial position to the market.



**Peter Landau**  
**Interim Executive Director**

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**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 two operating mines, the Vlakvarkfontein and Penumbra Coal Mines, producing approx. 2Mtpa of thermal coal for the export and domestic markets. A Feasibility Study was also completed on a proposed third mine, the De Wittekrans Coal Project with a mining right granted in September 2013.

**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 communication includes certain statements that may be deemed "forward-looking statements" and information. All statements in this communication, 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.