



10 September 2012

The Manager  
Company Announcements  
Australian Securities Exchange Limited  
Level 6, 20 Bridge Street  
Sydney NSW 2000

**By e-lodgement**

**CORPORATE UPDATE**

**FOCUS ON STRENGTHENING BALANCE SHEET AND INCREASING WORKING CAPITAL**

**Key points:**

- **Agreement to extend settlement of the acquisition of outstanding minority interests in Mashala Resources to 30 November 2012, with further extension to 28 February 2013 negotiated**
- **Binding offers due by end of the current quarter for a significant direct investment and acquisition of all or part of the Company's South African coal assets**
- **First draw-down of ABSA Capital debt facility for the Penumbra Mine development expected to be made from 1 October 2012, with the Company then no longer required to contribute further capital to its development**
- **Sale process of non-core assets continuing and forecast to be completed over the next three to six months, and**
- **Annual corporate costs forecast to reduce by 60% to A\$3.6m in FY2013 from approx. A\$9m (excluding SIOC-cdt transaction costs) in FY2012**

Continental Coal Limited (ASX: CCC) ("**Continental**" or "**the Company**") the South African thermal coal production, development and exploration company, is pleased to provide a corporate update on a number of initiatives that it has progressed over the past months, to strengthen its balance sheet and provide working capital to the Company as it looks to further advance its coal mining and development business in South Africa.

These initiatives have been pursued to counter the reduced margins from its export focused coal mining operations that have resulted from lower export thermal coal prices and have centred on the reduction of non-essential expenditure, potentially utilising cash balances in South Africa to fund corporate working capital and the finalisation of its formal process regarding a significant direct investment and/or acquisition of one or more of its African thermal coal mining assets.

The Company anticipates that, subject to coal market conditions, proceeds from these initiatives, once successfully completed, will be more than sufficient to meet its forecast working capital requirements for the next 12-24 months.

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### **Extension of Acquisition of Mashala Resources Minority Interests**

The interest of the Company's principal South African subsidiary in Mashala Resources, through which a number of its key coal project interests are held is currently 86%. The settlement of the acquisition of the outstanding minority interests was scheduled to be completed by 30 September 2012, for a final consideration amount of A\$8.6m. As detailed in the ASX announcement dated 19 October 2010 there was the option to complete the balance of the Mashala Resources transaction with either cash or shares, at the election of the minority shareholders. These shareholders have sought to receive their settlement amounts via a cash payment.

The Company has agreed and executed all necessary agreements with the minority shareholders in Mashala Resources to extend the settlement period to 30 November 2012, and subject to binding agreements in respect to initiatives already underway by the Company, can be further extended to 28 February 2013. The agreed extension assists the Company in managing its short-term working capital requirements.

Settlement is anticipated to be made from proceeds expected to be received from either the sale of non-core assets or from the successful conclusion of a transaction with one of several parties regarding a direct investment in or acquisition of its South African coal assets.

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

The Company has received several approaches from Indian based coal and power utility companies, as well as major global commodity trading and private equity groups, looking to acquire all or part of the Company's South African thermal coal mining business.

Based on these approaches and the Company's objective to strengthen its balance sheet and increase working capital, the Company formalised a due diligence and bidding process with its advisors in South Africa. The Company has received very encouraging indicative non-binding bids that have been reviewed by its advisors and a final short-list of parties have been pre-qualified by the Company to complete final due diligence. The Company advises that indicative non-binding bids several times the Company's current market capitalisation have been received for an outright acquisition of the Company's South African thermal coal mining business.

Final binding and committed offers are scheduled to be received by the Company at end of the current quarter and subject to the offers received the Company anticipates completion of the transaction by the end of the year.

*"While occurring concurrently with the other initiatives being progressed by the Company, the Board is well advanced in these discussions and are encouraged by the strategic importance of its South African assets to the prospective bidders," Continental Coal CEO Mr Turvey said.*

*"The indicative non-binding offers received from these parties and the values that they have attributed to our South African thermal coal mining business suggests that our assets are currently trading at a significant discount to market value," he added.*

### **Sale of Non-Core Assets**

The Company has further received non-binding expressions of interests to acquire a number of the Company's exploration projects within its thermal coal mining portfolio in South Africa that are designated as non-core.

To date this has included proposals to acquire 100% of the Company's interests in the Vaalbank, Project X, Wesselton II, Leiden and Mooifontein Coal Projects in South Africa.

In addition, and following the results of the Company's Phase 1 drilling program and 2.2 billion tonne JORC compliant inferred resource delineated on its Serowe and Kweneng Projects in Botswana, the Company has received interest from a number of groups seeking to acquire and/or earn a joint venture interest into these assets in Botswana.

The Company is looking to finalise negotiations regarding the disposal of non-core assets by calendar year end.

In addition the Company is continuing to seek to conclude the settlement of its proposed sale of its shareholding in Vanadium and Magnetite Exploration and Development Co (SA) (Pty) Limited ("Vanmag") to a Chinese steel manufacturer. Although the Company and Vanmag remains committed to working with the Chinese buyer to complete settlement of the acquisition, the Company has received further non-binding expressions of interest to both acquire its shareholding in Vanmag and also to develop the asset through a 150,000tonnes/month contract mining operation supported by two off-take agreements and to be fully funded by third parties. The Company anticipates being able to make an announcement on the status of this early in the next quarter.

### **Penumbra Update and ABSA draw-down**

As previously advised the Company is well advanced in the underground mine development activities at the Penumbra Coal Mine, its third mine in South Africa. This development is currently progressing well, with first coal production forecast for 30 October 2012 and a ramp up to full 750,000 tpa ROM production by 30 June 2013.

The forecast total capital cost for this project is ZAR328m (approx. A\$38.5m), with ZAR90m (approx. A\$11m) spent by the Company to date from cashflow and cash reserves in South Africa. The Company will further fund ZAR8m (approx. A\$1m) of capital costs from its existing cash balances and has set aside a contingency amount of ZAR17.5m (approx. A\$2.1m) from existing cash reserves to fund potential cost overruns. The remaining balance of mine development costs are fully funded from a secured project finance debt facility from ABSA Capital (ZAR253m, including a further cost over-run facility of ZAR17.5m (together approx. A\$30m)).

The Company is on target to meet its funding requirements for the Penumbra Mine development and with first coal production due to commence at the end of October 2012, the Company is seeking to complete its first drawdown under the ABSA Capital secured project finance debt facility by 1 October 2012. The move towards funding the Penumbra Mine development from the ABSA Capital debt facility allows the Company to utilise its cash (that had previously been directed towards funding the first ZAR100m of project development) for other mining and exploration activities and working capital requirements in South Africa.

*For and on behalf of the Board,*



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 two operating mines, the Vlakvarkfontein and Ferreira Coal Mines, producing 2Mtpa of thermal coal for the export and domestic markets. A third mine, the Penumbra Coal Mine, commenced development in September 2011 and a Bankable 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, 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 the 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.