Breakaway Research

Continental Coal (CCC)

Large resource base provides growth opportunities

Recommendation: Speculative BUY

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Company Information

ASX Code	**CCC**
AIM Code	COOL
Share Price	A$0.05
Ord Shares	445.9m
Listed Options (CCCO)	76.8m
Unlisted Options	47.1
Market Cap A$	**A$22.3m**
Cash (June2012)	A$14.6m
Total Debt + Con Notes	A$29.1m
Enterprise Value	**A$36.7m**

Directors

Non-Executive Chairman	Mike Kilbride
Chief Executive Officer	Don Turvey
Executive Director	Jason Brewer
Chief Financial Officer	Maritz Smith

Substantial Share Holders

Socius CG II Ltd	12.0%
Oz Management	3.1%
Satori Intl. Pty Ltd	1.3%
Dimensional Fund	0.3%
Jason Brewer	0.2%

Company Details

Address	1 Havelock Street, West Perth 6005, WA
Phone	+618 9488 5220
Web	www.conticoal.com

1 Year Price Chart

Source: Bloomberg

Key Points

- ***Current operations underpin company valuation with no value attributed to a solid pipeline of growth opportunities***
- ***JORC resource of ~2.8Bt, with mining reserves of 64Mt***
- ***Producing 1.8Mtpa ROM coal and targeting 5.5Mtpa ROM by 2015***
- ***Penumbra due for first production 2H 2012 targeting 750ktpa ROM***
- ***BFS complete on De Wittekrans; optimisation studies underway***
- ***Option to purchase 50% interest in Colombian producing coking coal operation***

Continental Coal is an established coal producer with an increasing production profile. The company is in the advanced stages of development at the 68Mt Penumbra mine which should deliver first coal 2H 2012. The much larger De Wittekans project has potential for +30 year mine life at 3.6Mpta ROM. The potential acquisition of a 50% interest in a Colombian coking coal asset and the highly prospective Botswana licences provide welcome diversity.

Company Overview

Continental Coal (74%) and its Black Economic Empowerment (BEE) partner (26%) have exposure to a portfolio of coal assets totalling 600Mt of coal resource, located in the highly productive Witbank/Ermelo coal fields of South Africa. Continental, in its own right, also has exposure to highly prospective tenements in Botswana (2Bt JORC inferred with further 4Bt exploration target) and a recently announced option to acquire a 50% interest in a producing coking coal asset in Colombia.

The company is currently producing ~1.8Mpta of saleable thermal coal from two open cut mines and is in the advanced stage of development on a third mine, Penumbra, which is expected to commence production in 2H 2012. Continental has also completed a Bankable Feasibility Study on a fourth mine, the De Wittekrans Project, which has the potential to commence production during the 2013 calendar year. Optimisation studies are currently underway and once complete, a development decision will be made.

Once all four mines are operational, Continental is targeting production of ~4Mt of saleable thermal coal with an approximate split of 70:30 sold into the domestic and export markets respectively.

A significant exploration opportunity exists on the Botswana licences where a 2.2Bt JORC inferred resource has been recently announced with a further 4Bt exploration target. Additional project diversification is possible with the likely acquisition of a 50% interest in producing coking coal assets in Columbia with current production of 50ktpa and potential to increase to 150ktpa.

Investment Review

CCC has a 74% interest in South African projects

Continental Coal (ASX: CCC), via a 74% interest in its South African subsidiary Continental Coal Limited (CCL), has a portfolio of established producing assets delivering coal into the domestic and more lucrative export market. The company currently produces ~1.8Mtpa saleable from two open cut mines (Vlakvarkfontein and Ferreria) for ~1.2Mt of domestic coal sold at the mine gate and a further +500ktpa of export quality coal which is sold out of the Richards Bay Coal Terminal.

Currently producing 1.8Mtpa from 2 mines

Continental is currently advancing the Penumbra coal project which hosts ~68Mt of export quality thermal coal and is set for first production in 2H 2012. Total development costs are estimated at ~US$40m, which is being funded from existing cash and a debt facility provided by ABSA Capital. Penumbra is a traditional bord and pillar operation targeting ~500,000tpa (saleable) of export quality thermal coal at an estimated cost of ~US$60/t FOB Richards Bay. Assuming (current) thermal coal price of US$95/t, Penumbra should be capable of delivering an operating margin of US$35/t or US$17.5m per annum. Continental has also hedged 664kt of production at ZAR 1,057 (~A$ 132), providing opportunity for higher profit margins than prevailing prices.

Penumbra forecast first production 2H 2012

Targeting 500,000tpa of export quality coal

A fourth project, De Wittekrans, hosts a total JORC resource of 250Mt and has potential for a +30 year mine life. Continental envisages producing 0.8Mtpa (saleable) of export coal and a further 1.7Mtpa of domestic coal for total saleable production of 2.5Mtpa. Preliminary results from a Bankable Feasibility Study completed in 2011 indicated an economically attractive project with a capex requirement of ~US$220m. Optimisation studies are underway to assess whether existing wash plants and rail sidings can be utilised to (significantly) reduce the initial capex and accelerate first production. A development decision is expected in 2H 2012 following the results of the optimisation study.

BFS complete on fourth mine

Breakaway has modelled the company's cashflow based on the two projects currently in production (Vlakvarkfontein and Ferreria) and the Penumbra project which is due for first production 2H 2012. Based on these three projects alone, **Breakaway has derived a project NPV$_{10}$ of $90m which equates to A$ 0.15/share** after accounting for Continentals economic interest in the projects.

Significant exploration opportunities also exists at the Vlakplaats Coal project, located just 25km from Continentals operating Vlakvarkfontein mine. Continental has entered into a 'Joint Development Agreement' with Korea Resources Corporation (KORES), a minerals and exploration company wholly owned by the Korean Government, to create a 'Special Purpose Vehicle' (owned 50% by Continental, 37% by KORES and 13% by Continentals BEE) to advance the Vlakplaats project through to completion of a bankable feasibility study.

Significant exploration opportunities

Elsewhere, Continental has a 83% interest in three exploration licences in Botswana, which cover an area thought to be a continuation of the Waterberg coal field. The company has completed the first round of drilling and identified multiple coal seams. A maiden **JORC inferred resource of 2.2Bt** has been estimated and Kweneng (1 of the 3 prospects) with a further 5Bt exploration target. At Serowe (the northern two licences), independent geological consultants have estimated a 4Bt exploration target.

Option to acquire 50% interest in coking coal asset

Continental also recently announced an option to acquire a 50% interest in a producing coking coal asset in Columbia for ~US$15m. The project is thought to be capable of delivering 150,000tpa in the medium term once operational efficiencies are brought into action and possibly increase to 500,000tpa with a new mining operation.

Valuation

Breakaway has only modelled producing and development assets

Breakaway has modelled Continental Coal based on the two mines currently in operation (Vlakvarkfontein and Ferreria) and the third mine, Penumbra, which is in the advanced stages of development and due for first production in 2H 2012.

Breakaway assumes:

- Exchange rates of: AUD/USD 1.00 and a AUD/ZAR of 8.00
- 664,550t of export quality coal hedged at ZAR 1,057 (A$ 132)
- Long term export coal price of US$ 90/t (current pricing ~US$ 97) and a long term domestic coal price of ZAR 176 (US$22/t)
- No value has been attributed to the additional 'uncommitted' South African projects, the Botswana exploration project and the potential coking coal asset in Colombia

Continental 'Operational' Valuation Summary

Base case valuation of A$ 0.15/share for the operational assets

Discount Rate	%	5.0	7.5	10.0
Total NPV	A$m	101	90	81
NPV per share (undiluted)	A$m	$0.25	$0.22	$0.20
NPV (CCC equity interest)	A$m	$0.18	$0.16	$0.15

Source: Breakaway Research

The table above highlights Breakaway's estimates of value attributed to current operations. Breakaway has a base case valuation of A$ 0.16/share. However, this estimate assigns no value to the significant assets in the exploration portfolio, including the advanced De Wittekrans project.

Breakaway views the estimates in the above table as conservative based on our assumptions of the long term coal price (estimated at US$ 90/t) and the potential to increase South African production through the development of the De Wittekrans Complex and (at a later stage) the Vlakplaats project (JV with KORES).

Opportunity to upgrade our numbers in the coming months

Short term opportunity exists to upgrade our numbers with the introduction of the Columbian coking coal project into the production portfolio. Due diligence is currently underway, however Continental's management has indicated that long term potential of 500,000tpa (250,000tpa net to CCC) operation may be achievable with a new mining operation. Coking coal currently trades ~US$ 190/t and Breakaway anticipates strong fundamentals will support the price for the foreseeable future.

Valuation upside will be recognised as growth projects are committed

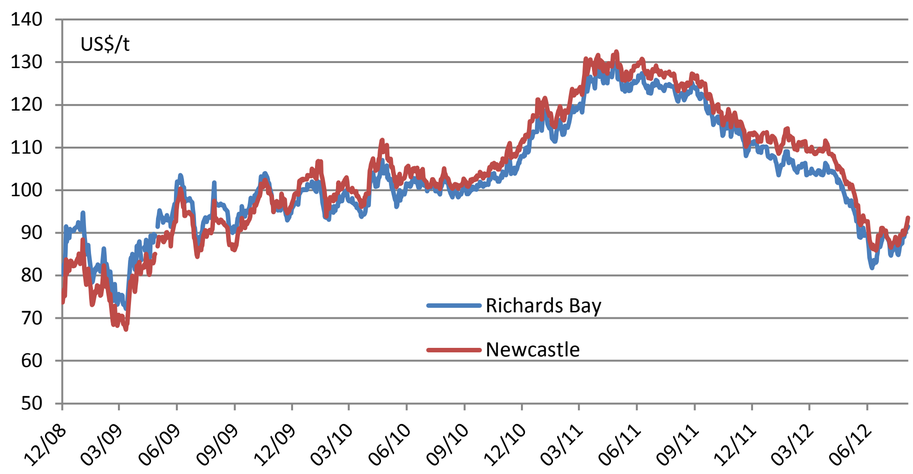
Overall, Breakaway believes the current valuation of the company is underpinned by the current production and development assets. Accordingly, the market appears to be attributing no value to the significant growth opportunities available to the company. This includes the likelihood of additional revenue via the likely acquisition of a 50% interest in the Colombian assets, as well as potential for near term commitment to development of a long life operation at De Wittekrans.

Thermal Coal Outlook

Thermal coal prices have softened in recent months

The thermal coal price benchmarks have come off steadily during the past year and the trend has accelerated in the last 3 months due to a combination of soft power demand in China and strong supply growth in the seaborne coal market, as illustrated in the price chart below.

Richards Bay (SA) and Newcastle (AUS) thermal coal price



Source: Bloomberg

Fundamentals point towards firmer prices

The increase in the thermal coal price witnessed during the second half of 2010, to a high of ~US$130/t in 2011, 'pulled' marginal high cost suppliers of coal into production. With current thermal coal prices at ~US$90/t and coal stocks at high levels, these high cost suppliers will likely wind back production in the near term However, the currently over supplied market is likely to move back towards balance as the Northern Hemisphere winter demand kicks in, supporting firmer prices.

Downside risk to current pricing is limited

Breakaway expects thermal coal prices to remain solid on a long term basis, supported by growing demand for power generation and views the downside risk to current pricing as limited.

South African Thermal Coal and the RBCT

RBCT largest coal terminal in the world

South Africa is the 5th largest coal exporter in the world shifting ~70Mtpa, the vast majority of which is thermal coal. South Africa is strategically positioned between the Atlantic and the Pacific markets and is able to export competitively to either Europe or the East. The Richards Bay Coal Terminal is the world's largest and has a design capacity of 91Mtpa and appears to have sufficient capacity for South Africa's current export requirements. Rail capacity does however appear to be 'bottlenecking' exports.

96% of South African electricity from thermal coal

South Africa is also a major consumer of coal, burning ~180Mtpa. Eskom and Sasol dominate local consumption, with 96% of electricity sourced from Eskom's coal fired power stations. Sasol is also major consumer, operating the only commercial coal-to-liquids facility in the world.

Discussions to increase port allocation

Continental currently has ~650kpta allocated at the RBCT through its own allocation and 3rd party arrangements. Discussions are underway to increase capacity at the RBCT whilst also exploring the opportunity to use the Maputo port (up to 1Mtpa) and the Navitrade facility (230-330ktpa).

Project Review

Continental Coal, through its 74% interest in South African based JV company 'Continental Coal Limited' (CCL), has a portfolio of production, development and exploration projects primarily located in the Witbank/Ermelo coal fields, in the north-east of South Africa. The company also has a 100% interest in three early stage exploration licences located in Botswana, close to the South African border.

South African major Coal Fields

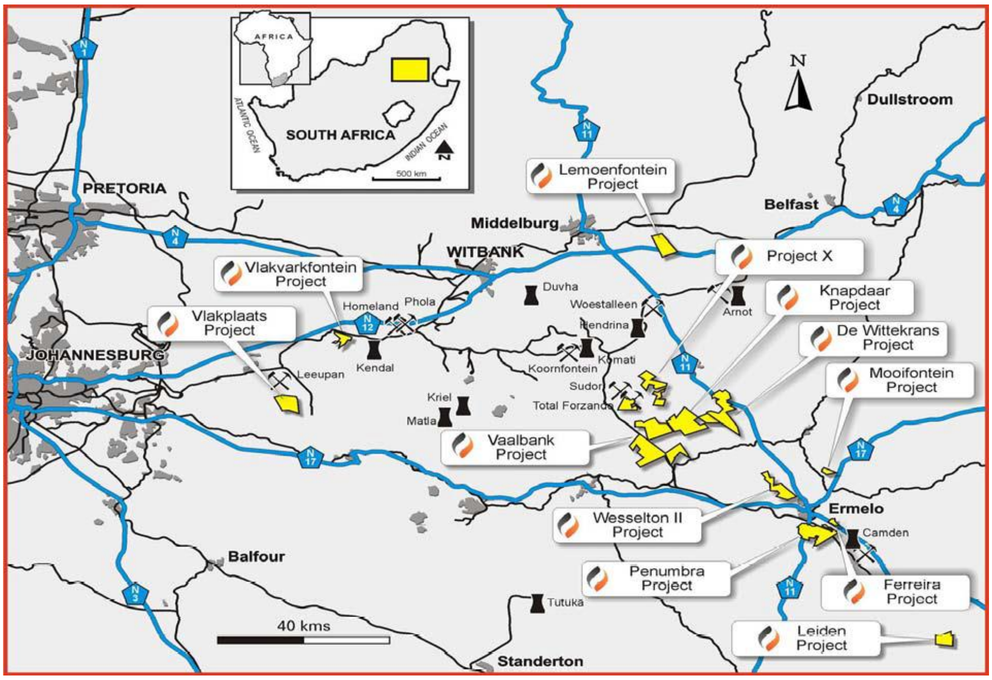
Witbank/Ermelo coal field is most important coal field in South Africa

Source: Maps of the World and PESD Stanford

The Witbank/Ermelo coal fields (which hosts all of Continental's South African projects) is currently the most important coalfield in South Africa, supplying more than 50% of South Africa's coal sales for the export and local markets whilst also hosting most of South Africa's major coal-fired power stations.

Continental Coal – South Africa Project Locations

Large tenement position well supported by infrastructure



Source: Continental Coal

The total combined resource encompassing all of Continental Coal's projects is 2.8Bt

603Mt JORC resource

Total Project Resources

Project	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	**Total (Mt)**
Vlakvarkfontein (Production)	17.4	0	0	**17.4**
Ferreira (Production)	1.3	-	-	**1.3**
Penumbra (Development)	13	30.3	25	**68.3**
De Wittekrans Complex (Development)	48.4	73.2	129.5	**251.1**
Vlakplaats (Exploration)	-	-	188	**188**
Wolvenfontein (Exploration)	-	-	37	**37**
Ermelo Projects (Exploration)	9	7	24	**40**
Botswana (Exploration)	-	-	2,159	**2,159-**
Total	**89.1**	**110.5**	**2,562.5**	**2,762.1**

**As at June 2011 Source: Continental Coal*

Of the 2.8Bt in resources, Continental Coal has mining reserves of 63.5Mt with the pre-production 'De Wittekrans Complex' (due to come on line in 2013) contributing the lions share.

63.5Mt in reserves

Total Mining Reserves

Project	Proven (Mt)	Probable (Mt)	**Total (Mt)**
Vlakvarkfontein	13.7		**13.7**
Ferreira	0.59		**0.59**
Penumbra	1.71	3.73	**5.44**
De Wittekrans Complex	16.15	27.62	**43.77**
Total	**32.15**	**31.35**	**63.5**

**Mining Reserves as at 30 June 2011 Source: Continental Coal*

Corporate Activity and Ownership Structure

Favourable BEE partner injects ~A$17.5m for 26% interest

In September 2010, Continental Coal's South African subsidiary, CCL, paid US$35m for 64.1% of Mashala Resources, an unlisted coal mining company. The acquisition enhanced Continental's project portfolio by providing producing assets, near term development opportunities, port allocation at Richards Bay and vital infrastructure such as a processing plant, rail sidings and a local work force. Continental Coal has since increased its interest to 83% and is expected to move to 100% within the coming weeks. The Mashala transaction is estimated to have a total cost of US$54m.

First class BEE partner

In November 2011, Continental Coal entered into a Joint Venture agreement with a 'Broad Based Black Empowerment Company ', Sishen Iron Ore Company Community Development Trust ("SIOC-cdt"). Under the terms agreed, SIOC-cdt acquired a 26% interest in the company's South African subsidiary, Continental Coal Limited (CCL) for a total of ZAR 215m (~A$26.8m) with ZAR 75m (A$ 9.4m) still to be paid.

The 26% acquisition provides Continental with a welcome boost to cash reserves needed to advance the South African projects.

Continental Coal: Project Summary

Project	Total Resource Mt	Economic interest %	Targeted Production Mt	Targeted Mine Life Years	Targeted Market	Targeted Production Start
Vlakvarkfontein	17.4	45%	1.2	+10 years	Domestic	Current
Ferreira	1.3	83%	0.7	1-2 years	Export/ Domestic	Current
Penumbra	68.3	83%	0.9	+10 years	Export/ Domestic	2012
De Wittekrans Complex	251.1	83%	6-10	+30 years	Export/ Domestic	2013/14
Vlakplaats	188	37%	3-5	+20 years	Export/ Domestic	2013/14
Wolvenfontein	37	74%	1-3	+10 years	Export/ Domestic	2013/14
Ermelo Projects	40	83%	0.6-1.2	+10 years	Export/ Domestic	2013/14
Botswana	2,200	83%				
Total	2,803		12			

**Assumes CCL complete Mashala transaction and move to 100%. Source: Breakaway Research and Continental Coal*

Strong project pipeline

Vlakvarkfontein (45% economic interest)

~1.2Mtpa of domestic quality thermal coal for local power stations and industry

Producing 1.2Mtpa of domestic coal

The Vlakvarkfontein mine is situated on an 850 hectare property and is located 13km from the Kendal power station, owned and operated by Eskom, South Africa's principle power generation company. Vlakvarkfontein has a measured coal resource of 17.4Mt of which 13.7Mt is in proven reserves.

Continental Coal began open cut mining in May 2010 targeting production from two 5m thick coal seams. The mine currently produces ~100,000t of domestic coal per month from ~1.2Mtpa ROM with a strip ratio of ~2:1. The coal is crushed and screened to produce a 50mm product which is then sold to the local power stations (a three year agreement was recently signed with Eskom to supply 720ktpa) and local industry at the mine gate. Assuming no further increase to mining reserves and steady state production at current levels, Vlakvarkfontein has a mine life of +10 years.

Crushing and screening operation and open pit mining at Vlakvarkfontein

Source: Continental Coal

Ferreira Mine (83% economic interest)

Nearing completion - CCC targeting adjacent coal seams to extend LOM

The Ferrerira mine and neighbouring Delta coal processing plant were recently acquired as part of the Mashala Resources acquisition.

The Ferreira open cut hosts a total resource of 1.3Mt of which 0.59Mt is in proven mining reserves. The mine is located ~3km from the 1.8Mtpa Delta processing plant and is adjacent to the 1.2Mtpa Anthra railway siding on the coal line to the Richards Bay Coal Terminal (RBCT).

High quality export coal

ROM production from the Ferreira is ~54,000t per month (~650,000tpa) with an average yield of 60% to produce ~32,500t per month of a high quality export thermal coal. With current reserves of 590,000t, the current mine life is less than a year. Additional operational and utilization efficiencies exist via the regular purchase of export quality thermal coal from neighbouring mines (that lack processing facilities) which is then blended with Ferrerira coal and exported via the RBCT.

Purchasing nearby licences for royalty payments on coal produced

In order to boost resources, Continental Coal recently entered into purchase agreement with two neighbouring operators for the right to develop the 'Portion 25, 27 and 100' of the farm Witbank 262 IT, all located immediately adjacent to the Ferreira coal mine, for an undisclosed market related monthly royalty payment on each tonne of run-of-mine coal mined from the properties.

A 15 hole exploration and resource confirmation program has commenced and development applications have been submitted. Continental has forecast ~350-400kt ROM can be mined from Portion 25 over ~8 months and a further 250-300kt from Portion 27 and 100, increasing the mine life by another ~6 months.

The Delta Processing Plant and the Crushing and screening operations

Established processing facilities

Source: Continental Coal

Penumbra Coal Project (83% economic interest)

First production scheduled for Sept 2012 ramping up to 500ktpa of export coal

First coal 2H 2012

The Penumbra Coal Project is located 3km from the Ferreira open cut and 2km from the Delta processing plant and rail siding. The project currently hosts a 68.3Mt resource of which 5.44Mt is in mining reserves.

Targeting 500,000tpa of export coal

Development of an underground bord and pillar operation began in September 2011 and is well advanced, with the twin declines (conveying road and travelling road) each advanced ~150m respectively (as of June 2012), targeting total decline of 390m. First coal production is scheduled for Q4 2012 ramping up to ~750,000tpa ROM for ~500,000tpa of high quality export thermal coal.

Decline development at Penumbra

Source: Continental Coal

Twin declines well advanced

Coal production will initially be targeted from the 'C-lower' seam which has an average thickness of 1.8m at a depth of 50m-115m. Continental envisages ~750ktpa of ROM coal will be mined and transported to the Delta Processing Plant where it will be beneficiated for export at the Richards Bay Coal Terminal under existing rail and off-take contracts.

High probability of reserve upgrades

The expected yield of the coal is ~65% (750Ktpa ROM for ~500ktpa saleable) with total costs per tonne (ROM) estimated at ZAR490/t (~A$60/t) FOB. The total development costs are estimated at US$40m which is fully funded from existing cash and a debt facility provided by ABSA Capital (part of Barclays Bank). The current mine life is 10 years, however with a further +60Mt in resources, there are likely to be numerous reserve upgrades.

Continental has also established a coal hedging program with ABSA capital of 664kt at an average price of ZAR 1,057 (A$132) against forecast total FOB costs ~ZAR490/t (~A$60/t) as per SRK's Competent Persons Report.

De Wittekrans Coal Project (83% interest)

Large resource for +30 year LOM targeting 3.6Mtpa ROM production rate

BFS complete

The De Wittekrans Coal Project lies within the greater De Wittekrans Complex which also hosts the nearby Vaalbank, Knapdaar and Project X coal projects. The combined resource over these four projects is 250Mt of which 43.77Mt is currently in mining reserves.

+30 year mine life

In September 2011, TWP Projects completed a draft Bankable Feasibility Study (BFS) on the De Wittekrans coal project which concluded that the project was technically sound and viable with a potential mine life of +30 years.

Optimisation study underway

Development decision pending

Continental Coal envisages an initial open cut operation, targeting production of ~1.2Mtpa ROM over a period of approximately 5 years. In year 2 of operations, underground development would commence, targeting a further 2.4Mtpa ROM (totalling ~3.6Mpta). The coal would then be processed through a 600 tonne per hour plant to produce 1.7Mtpa of domestic coal and 0.8Mt of export quality coal. The current capex requirement is estimated to be US$220m, however an optimisation study is currently underway to assess the potential of using existing coal wash plants and rail sidings in the vicinity which may reduce upfront capital costs (by approx. US$40-US$60m) and accelerate first coal production.

A formal development decision is expected in 2H 2012 once the optimisation study has been completed and the company has received a 'New Order Mining Right' from the Department of Minerals and Resources. The company estimate first coal production could be as early as 2013.

Exploration Projects

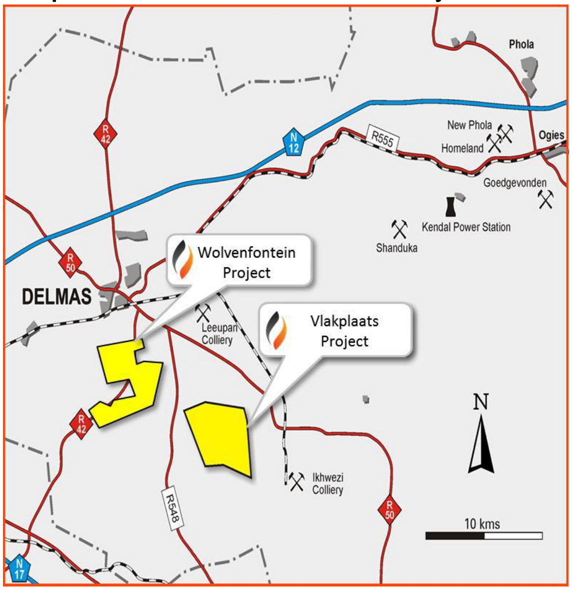
Vlakplaats Coal Project

JV with Korea state owned company to advance project to completion of BFS

The Vlakplaats exploration project is located ~80km east of Johannesburg and ~25km south west of Vlakvarkfontein (a 1.2Mtpa coal mine owned and operated by Continental Coal) and currently hosts a 188Mt inferred resource. Infrastructure around Vlakplaats is well established with nearby access to rail, roads and power.

188Mt inferred resource

Vlakplaats and Wolvenfontein Coal Project



Source: Continental Coal

JV agreement with Koreans to advance through to completion of BFS

In late 2010, Continental Coal (with its BEE partner) entered into a 'Joint Development Agreement' with Korea Resources Corporation (KORES), a minerals and exploration company wholly owned by the Korean Government, to create a 'Special Purpose Vehicle' (owned 50% by Continental, 37% by KORES and 13% by Continentals BEE) to advance the Vlakplaats project through to completion of a Bankable Feasibility Study.

Continental has been appointed as the project manager and any feasibility and development costs will be funded by the JV partners on a pro-rata basis. Should the BEE party be unable to fund their share of costs, Continental and KORES will jointly carry the BEE and recoup those costs at first production.

Historical drilling at Vlakplaats indicates potential to mine the No.4 and No.2 seams through open cut and underground mining methods. The No.2 seam has been determined to have a maximum thickness of 5.5m and would be amenable, in part, to open cut mining (likely to be targeted for first production) while the No.4 seam varies in thickness from 0.6m to 8.7m (avg of ~4m).

Wolvenfontein Project

Resource purchased for ~A$1.3M

In November 2011, Continental purchased a 100% interest in the Wolvenfontein Coal project, located just ~5km east of Vlakplaats, further consolidating its position in the Delmas area.

Wolvenfontein does not yet have a JORC resource however the ground is prospective for coal and is strategically important asset being so close to the 187Mt Vlakplats project.

Vaalbank Coal Project

Exploration increases the potential for corporate activity at Vaalbank

Exploration to begin on prospective ground

Continental recently entered into a MOU with Forzando Coal to jointly explore the Vaalbank property through an initial ZAR3m (~A$375k), 20 hole drill program (due to start imminently) and associated raw and washed analyses of the coal qualities.

Forzando Coal and its major shareholder, Total Coal South Africa, are seeking to expand operations and acquire new projects in the immediate area.

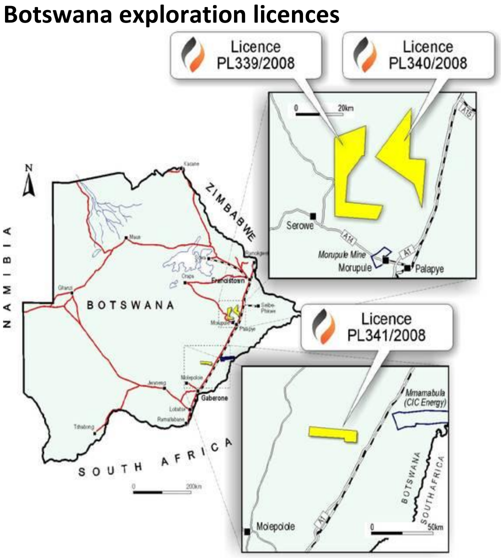
Botswana Exploration Projects (83% interest)

Large tonnage exploration potential adjacent to existing infrastructure

Licences close to rail and road

Continental Coal has a 83% interest in three prospecting licences covering around 964km^2. The licences are in the south east of Botswana, in an area which is interpreted as representing an extension of South Africa's Waterberg coalfield. The licences were acquired as part of the Mashala transaction.

Botswana exploration licences



Source: Continental Coal

Multiple visible coal seams

A 9,000m drilling program was recently completed at the two northern licences (known as the Serowe project) and the southern licence (known as the Kweneng project).

2.2Bt JORC Inferred

A maiden JORC inferred resource of 2,159Mt and a further 5Bt exploration target has been estimated for the Kweneng project and a 4Bt exploration target has been estimated for the Serowe project.

A further 9Bt exploration target

On an air dried basis the calorific value at Kweneng ranges from 3,100kcal/kg to 4,750kcal/kg. Initial washability test-work recently completed for a ~4,750kcal/kg (20MJ/kg) saleable product indicated yields ranging from 52% to 96% with approximate characteristics of: Ash: ~26%, Volatile Matter: ~26%, Moisture: ~6% and Sulphur: ~0.5-3.8% with results varying slightly from seam to seam. At the Serowe project, washability test-work indicates coal of similar characterises to Kweneng.

Continental has now committed to a phase 2 drilling program with the aim of converting a significant portion of the exploration targets into resources.

Colombian Coking Coal Project (option to acquire 50% JV interest)

Due-diligence underway – potential for 50% interest in 500,000tpa operation

Due-diligence underway

Continental recently entered into an agreement to acquire a 50% interest for ~US$15m in an operating coking coal mine in Colombia subject to completion of due diligence.

Large exploration potential

The potential acquisition encompasses five mining licences covering 1,500 hectares and includes the existing underground mine, which is has been in operation for 24 years, and the adjacent exploration ground.

Existing mining operation

The mine is located in the east of Colombia and has a workforce of more than 140 employees. Current underground production and access is through a series of declines to mine 2 seams with a total economic thickness of 1.7m. Mining is by a modified room and pillar mining method and given the high quality nature of the coal, no wash plant is currently required. Sales of coking coal are made at mine gate with current margins of ~75%. Sales directly to the export market are planned in 2013. The operation has a conceptual mine plan in excess of 50 years, although currently has no JORC compliant reserves or resources.

The table below lists the analytical results obtained from an independent analysis completed in 2010.

Good quality coking coal

Specifications of Colombian Coking Coal Project

Specification	Value
Gross calorific value (Air Dried, Btu)	15,024
Moisture (% max)	7.0
Ash (% max) (Air Dried, AD)	3.4
Volatile matter (VM) (%) (Air Dried, AD)	36.5
Fixed carbon (FC) (%) (Air Dried, AD)	60.1
Total sulphur (TS) (% max) (Air Dried, AD)	0.6
Free swelling index (FSI)	7.5
Fluidity (ddpm)	30,000
Ash fusion temperature (AFT) (Celsius)	1,482
HGI	71
Sizing (mm)	51

Source: Continental Coal

Operational efficiencies may increase production to 500,000tpa

An independent technical review in 2010 determined that mine production can be increased significantly from its current levels through the introduction of mechanisation, improvements to the mine infrastructure, a modified mine layout and an additional production shift. Based on historic reports and its current due diligence, Continental believes annual production of 150,000t can be achieved in the medium term through operational efficiencies and 500,000tpa achievable in the longer term with a new mining operation.

Continental expects the due diligence to be completed by the end of June 2012 and a decision on whether to proceed with the 50% JV (for ~US$15m) will be made shortly after.

Directors

Non-Executive Chairman

Mike Kilbride brings with him more than 35 years broad experience and knowledge in the international mining sector encompassing various commodities, mining and beneficiation methods. During this period Mr Kilbride has held various senior management positions in charge of world-class mines primarily associated with the bulk commodities and supplying markets into Asia, Europe and South Africa.

Chief Executive Officer

Don Turvey is a mining executive, with more than 27 years' experience in the coal industry. His career includes senior management roles in production, project execution, business development, minerals resource management mainly with BHP Billiton. He spent most of his time in SA with exposure in countries like Australia, North America and Indonesia. He is past President and member of the SA Colliery Managers Association, member of the SA Institute for Mining and Metallurgy and member of the University of Pretoria Mining Advisory Committee.

Chief Financial Officer

Maritz Smith was previously CFO and Group Financial Director of South African-based diversified mining company Metorex Limited, a wholly owned subsidiary of the Jinchuan Group. He is a member of the South African Institute of Chartered Accountants and has more than 10 years' experience in the mining industry. During this with Metorex, the market capitalisation grew from ZAR400 million in 2002 to ZAR9 billion in 2012.

Executive Director

Jason Brewer has over 18 years international experience in the natural resources sector and in investment banking. He is a mining engineer with a master's degree in mining engineering with honours from the Royal School of Mines, London. He has experience in gold and basemetals mines, having worked at the Kidd Creek Copper and Zinc mine in Canada for Falconbridge, the Lanfranchi Nickel Mine in Western Australia for WMC and the Kinross Gold Mine in South Africa for Glencore.

Non - Executive Director

Peter Landau is a corporate lawyer and corporate advisor, providing general corporate, capital raising, transaction and strategic advice to numerous ASX listed and unlisted companies. Over the last 15 years Mr Landau has project managed a significant number of mining exploration and development transactions around the world including capital raisings, M & A, joint ventures and financings. Mr Landau is a director of a number of ASX listed companies with particular focus on mining resource and oil and gas exploration and development on the African Continent.

Non - Executive Director

Johan Bloemsma is a highly experienced and respected senior coal mining executive with 41 years in the coal mining industry. His career includes directorships and executive management roles in coal production, project management, mergers and acquisitions and business development predominantly with Anglo American PLC and Anglo Coal. His extensive career has involved coal mining in all the major coal producing regions of the world

Non - Executive Director

Connie Molusi is currently the Chairperson of SIOC-cdt, where in November 2011 Subscription and Shareholder Agreements were executed with the Company under which SIOC-cdt has become Continental's new partner in South Africa. Mr Molusi brings with him more than twenty five years broad experience and knowledge in South Africa's business sector. Mr Molusi previously held the position of Executive Director and Group Chief Executive Officer of Johnnic Communications, South Africa's leading media group.

Non - Executive Director	**James Leahy** has more than 26 years' experience in the mining sector as a senior mining analyst and as a specialist corporate broker with expertise in international institutional and hedge funds, foreign capital and private equity markets. James is also a founding partner of the natural resources team at Mirabaud Securities, one of the leading UK based stockbroking firms and has advised a number of natural resource focused funds in the UK, raised more than US$2 billion in equity for resource companies and participated in over 30 IPO's.
Non - Executive Director	**Andrew Macaulay** has been involved in the African oil & gas and natural resource sector since the 1980's. He was previously an executive with HSBC Bank and is a founding director of Continental Coal Ltd (SA).

Analyst Verification

We, Grant Craighead and Andrew McLeod, as the Research Analysts, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

Disclosure

Breakaway Investment Group (AFSL 290093) may receive corporate advisory fees, consultancy fees and commissions on sale and purchase of the shares of Continental Coal and may hold direct and indirect shares in the company. It has also received a commission on the preparation of this research note.

Disclaimer

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