

30 July 2010

Quarterly Report

Activities Report for the Quarter ended 30 June 2010

Summary of Coalworks Limited's Achievements in this Quarter

- ❖ *Ferndale Coal Project – Phase 1 Drilling commenced*
- ❖ *Pre-collar (0-54m) of FD001 intersected Newcastle Coal Measures at shallow depths. FD002 intersected coal in Newcastle Coal Measures and Upper Wittingham Coal Measures. The corrected cumulative coal thickness was 30m, better than anticipated, and the thickest seam was 4.3m. Seven holes are planned in this phase of drilling.*
- ❖ *Increased Exploration Target within the Newcastle Coal Measures of additional 50 to 80 million tonnes with Open Cut potential. Total Exploration Target increased to 250 - 330 million tonnes.*
- ❖ *Vickery South – Farm In Agreement with ITOCHU subsidiary, ICRA Vickery Pty Ltd. Itochu intends to spend up to \$11 Million to develop the project.*
- ❖ *Vickery South – Initial Exploration Target of 4 to 6.5 million tonnes of bituminous coal in western area in addition to the Inferred Resources of 42 million tonnes of bituminous coal in the eastern area of EL7407.*
- ❖ *Oaklands – Positive gasification test results from Gas Technology Institute (GTI).*
- ❖ *Oaklands – Aquatic Survey Completed with no records of threatened or protected species from within the Project Area.*

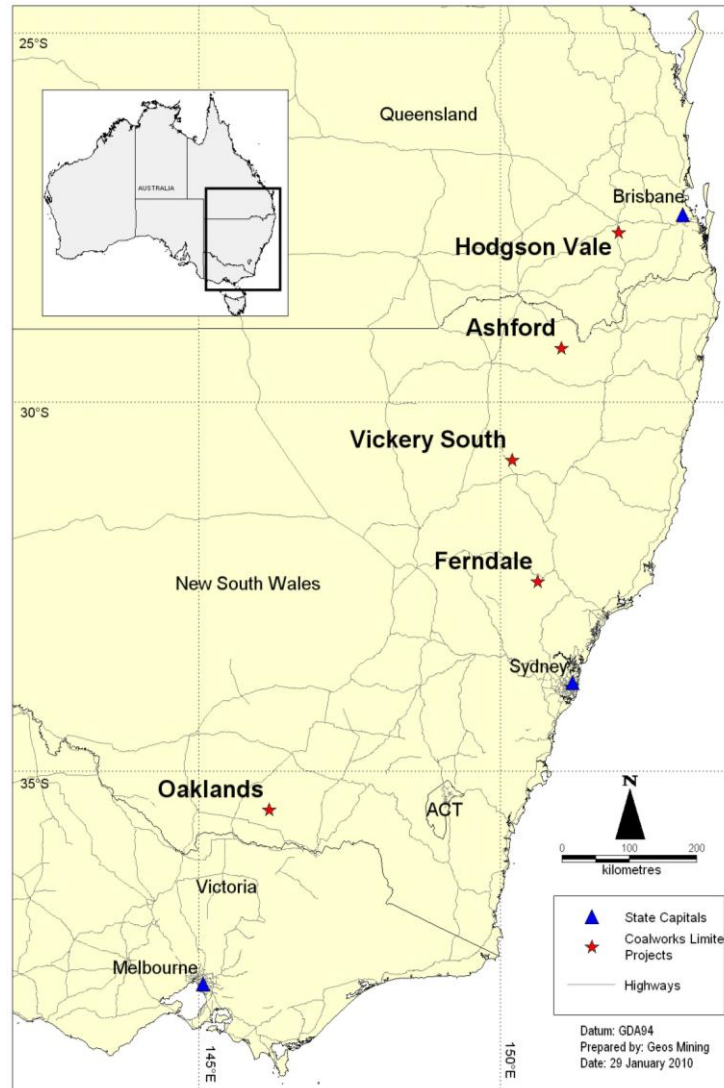
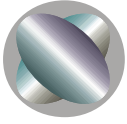
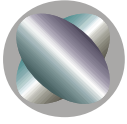


Figure 1: Coalworks Limited – location of projects.

Ferndale EL 7430 (Coalworks 90%, coal exploration) (see Figure 1)

Coalworks commenced Phase 1 Drilling at Ferndale during this quarter. The initial Phase 1 Drilling consists of seven drill holes concentrated mainly on the northern section, with one core hole in the southern section of EL7430 (Figure 2). To date, FD001 in the south, was pre-collared and chip drilled to 54m depth. The subsequent depths will be selectively cored, with the coal sections cored for gas and coal quality analyses. FD002 in the north, was chip drilled to 348m and is to be diamond tailed to 500m depth. FD001 and 002 were geophysically logged and will be re-logged on hole completion. The rest of the planned holes in the north are designated to be selectively cored, with coal core samples to be taken for quality analyses, three of which will also be tested for gas.



At FD001, the top seams of the Newcastle Coal Measures were intersected at very shallow depths. The Great Northern Seam is 3.1m thick and is oxidised and intersected at 10.26m depth with the base of weathering directly below the seam.

At FD002, the first seam intersected was below the base of weathering (15m) at 24.6m. Current seam assignments (shown in Table 1) are tentative only, and are based on seam correlation with historical drillholes. The seams in the Newcastle Coal Measures (NCM) generally contain stone-bands. The level of stone banding of the seams in the NCM will need to be determined by setting maximum thickness limits to define intra seam stone bands. Coal core analyses of these seams are required to determine whether the seams are economically viable.

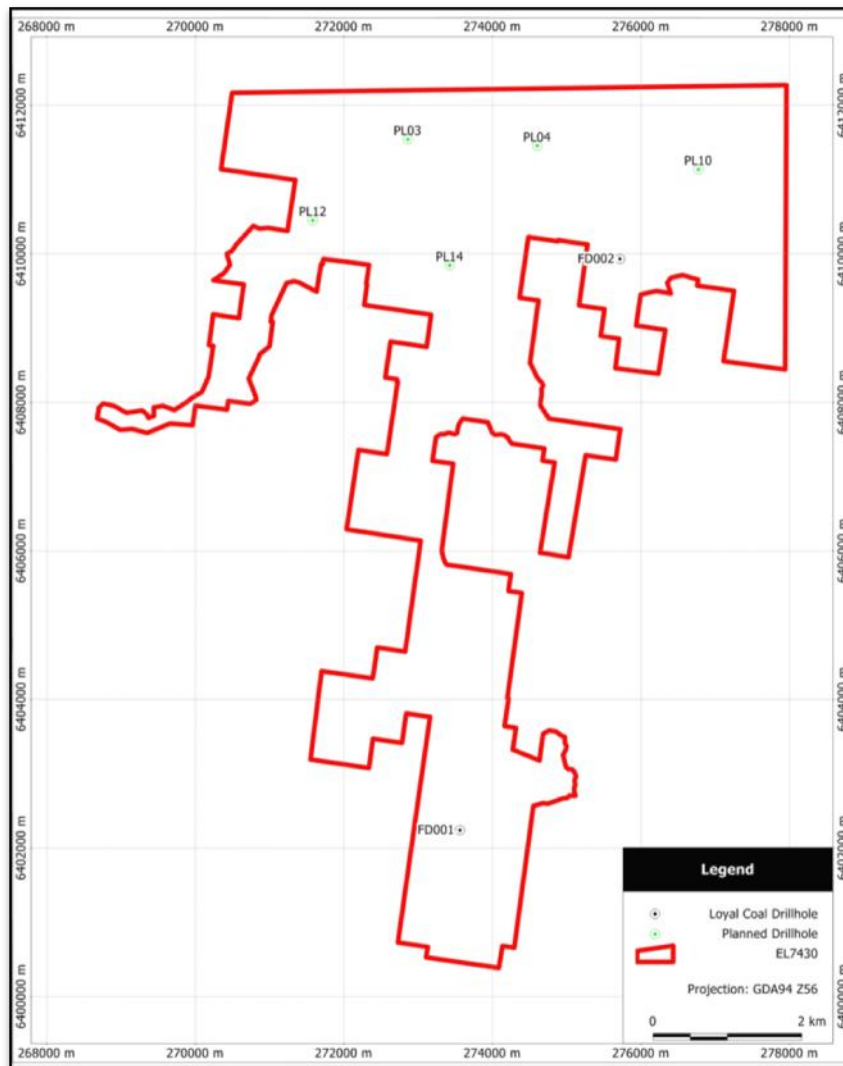
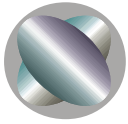


Figure 2: EL7430 Ferndale - initial Phase 1 drillholes (prefixed FD) and drillsites (prefixed PL).



	Coal Seam (correlations tentative only)	FD001			FD002		
		From	To	Thickness	From	To	Thickness
Newcastle Coal Measures	Great Northern	10.26	13.35	3.09	-	-	-
	Fassifern	35.94	37.1	1.16	24.6	27.58	2.98
	Upper Pilot	39.62	41.15	1.53	27.77	28.6	0.83
	Hartley Hill (Upper Split)				91.2	92	0.8
	Hartley Hill (Lower Split)				94	96.98	2.98
	Australasian				134.4	135.63	1.23
	Montrose				137.07	138.67	1.6
	Wave Hill				139.09	143.35	4.26
	Fern Valley (Upper Split)				145.54	146.03	0.49
	Fern Valley (Lower Split)				147.15	148	0.85
	Victoria Tunnel				148.4	150.7	2.3
	Nobbys				171.82	172.83	1.01
	Dudley				173.52	174.03	0.51
	Yard				183.2	183.81	0.61
Wittingham Coal Measures	Whybrow (Upper Split)				258.08	259.67	1.59
	Whybrow (Lower Split)				261.31	262.18	0.87
	Redbank Creek				279.06	281.51	2.45
	Wambo				305.94	307.13	1.19
	Whynot				338.38	341.66	3.28

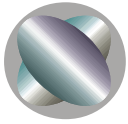
Table 1: Coalworks Ferndale Phase 1 Drilling preliminary geophysically corrected seam summary.

Vickery South (Coalworks Limited 100%) (see Figure 1)

Coalworks (Vickery South) Pty Ltd, a wholly owned subsidiary of Coalworks Limited signed a Farm In Agreement with ICRA Vickery Pty Ltd, a subsidiary of the Japanese conglomerate ITOCHU Corporation, to develop the Vickery South coal project in the booming Gunnedah Basin of NSW (see Coalworks announcement dated 4 May 2010). Up to \$11 million will be spent by ICRA Vickery Pty Ltd on the project to undertake preliminary feasibility study and complete a bankable feasibility study by mid-2011.

Phase 1 Drilling was completed in the previous quarter and consisted of 15 drill holes, four of which were cored and the remainder of which were open holed. Phase 1 Drilling identified **Inferred Resources of 42 million tonnes of bituminous coal** (classified in accordance with the JORC Code; see Coalworks Announcement dated 15 April 2010) in the eastern area of EL7407 (Figure 3).

Assessment of Coalworks data and historical drillhole data from within and around the western section EL7407, has resulted in the identification of an additional Exploration Target of **between 4 to 6.5 Mt of bituminous coal** during this period.



26/05/2010

EL 7407 Exploration Targets - Western Zone



Coalworks Vickery South Pty Ltd.

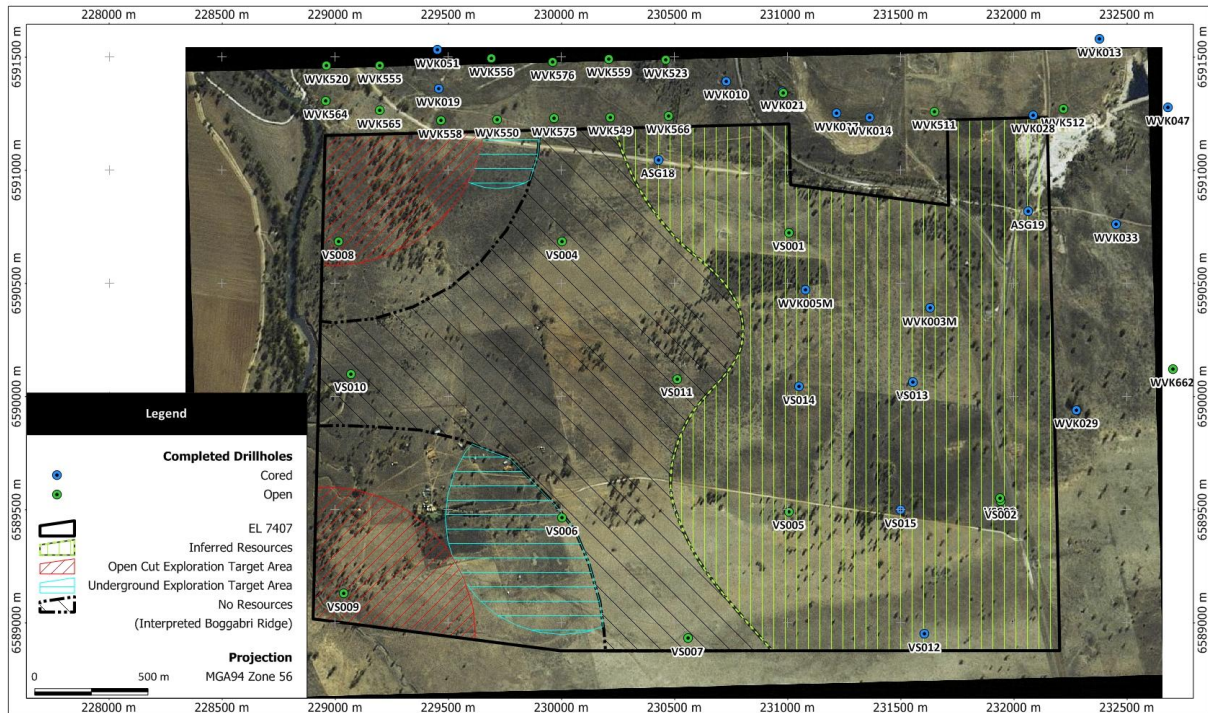
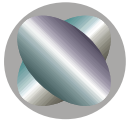


Figure 3: Vickery South Inferred Resources and Exploration Targets.

In the tenement's western zone, two main areas have been identified which contain both open cut and underground resource potential (Figure 3):

1. Northwestern Open Cut - intersected cumulative coal thicknesses in historical drillholes (downhole geophysics not available) range from 6.51 - 8.06m and stripping ratios ranging from about 7.3 - 10.5:1 BCM/tonne. Evaluation of this data, in conjunction with geological knowledge regarding coal seam thinning near the Boggabri Ridge, has result in an assumed cumulative seam thickness ranging from 4.0 - 7.0m for the Exploration Target;
2. Northwestern Underground – The Exploration Target in this area is based upon historical drillholes WVK550 and WVK575 which recorded a 3.17m thick seam from 55.04m depth and 2.11m thick seam from 65.11m depth respectively (downhole geophysics not available), which is considered to be potentially mineable using underground methods. A seam thickness range of 2.0 – 3.0m has been assumed;
3. Southwestern Open Cut – one hole (VS009) exists in this area, and intersected a cumulative coal thickness of 5.22m (confirmed by downhole geophysics). The seams are expected to thin northwards towards VS010 and eastwards towards VS006. A cumulative seam thickness range of 3.5 – 5.0m has been assumed;



4. Southwestern Underground – one hole (VS006) exists in this area, and intersected a 1.85m thick coal seam from 39.43m depth (confirmed by downhole geophysics). The seam is expected to extend westwards toward VS009 and to thin immediately eastwards towards the inferred Boggabri Ridge. A seam thickness range of 1.2m to 1.8m has been assumed.

Exploration Target Area	Area (m ²)	Assumed Thickness range (m)	Tonnage (Mt) (Range)*
Area A (Northwest Open Cut)	317,856	4.0 – 7.0	1.7 – 2.9
Area B (Northwest)	91,100	2.0 - 3.0	0.2 - 0.3
Area C (Southwest Open Cut)	352,554	3.5 - 5.0	1.6 - 2.3
Area D (Southwest Underground)	377,512	1.2 – 1.8	0.6 - 0.9
TOTAL (range)			4 – 6.5 Mt

Table 2: Summary of Exploration Targets in EL7407 Vickery South (Western Zone).

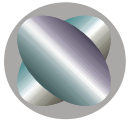
**Estimated using a default coal RD of 1.32 (based on data from historical hole, WVK051).*

It is noted that due to the small coal tonnages involved, any future underground mining operation accessing any potential reserves in the northwestern and southwestern underground areas, may need to be either:

- a) mined as an extension of an adjacent opencut operation within the tenement;
- b) mine via access from a mining operation situated outside the tenement;
- c) auger-mined from the highwall of an adjacent open cut pit.

Coal Quality:

Coal quality is available for some tentatively correlated seams, based on historical drillholes WVK019 and WVK051 situated immediately northwest of EL7407. Raw ash content is generally low to medium, with sulphur low to high. Raw coal crucible swelling number (CSN) values range widely from 1 to 5 but is consistent with specific seams. The splits of the Blue Vale Seam exhibit coking and PCI potential. This property is generally consistent with CSN values obtained for the Blue Vale seam splits in the tenement's eastern area (see Coalworks' announcement dated 15 April 2010).



The Exploration Target is conceptual in nature and there has been insufficient exploration to date to define a Mineral Resource in the western section of the Licence. A second phase of drilling to further define the coal in the Licence and upgrade Resource status is expected to commence around August 2010. This second stage of exploration may also include limited ground based geophysics to aid in defining structure, intrusions and stratigraphic correlations across the tenement.

Oaklands EL6861 (Coalworks Limited 100%) (see Figure 1)

During the period, Coalworks has received a positive gasification test report from Gas Technology Institute (GTI) in Chicago as part of the Coal To Liquid (CTL) Feasibility Study conducted by Coalworks' Strategic Alliance partner Synthesis Energy Systems Inc (see Coalworks announcement dated 3 June 2010). Tests were conducted to determine suitability of Oaklands coal for fluidised-bed gasification. Based on the results from chemical analyses, Thermogravimetric Analyses (TGA) and Mini-bench unit (MBU) tests, it was confirmed that Oaklands coal is amenable to gasification and coal sample reactivity is comparable with the Kentucky #9 coal which is known to be suitable for gasification.

The coal reactivity can be used in ASPEN or FORTRAN modelling of the process to generate material and energy balances for various operating scenarios to secure desired Syngas composition.

Oaklands coal also displayed several good gasification qualities:

- Excellent carbon conversion (99.6%);
- The bench-scale unit operated well and the fluidised bed did not show signs of "stickiness" or agglomeration;
- Results of the Toxicity Characteristic Leaching Procedure for the gasification residue (ash) showed that no hazardous substances were leached, indicating that the residue material from the gasification test could be put in a landfill as one of the environmentally acceptable disposal options.

Aquatic Study

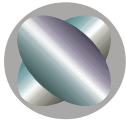
An Aquatic study conducted by Cardno Ecology Lab along Billabong Creek and associated annabranches following high flow events, failed to find the presence of any records of threatened or protected species from within the Project Area.

Hodgson Vale EPC 1145

Coalworks is currently conducting a technical review of this project in preparation for a possible divestment.

Ashford EL 6511

Coalworks is currently conducting a technical review of this project in preparation for a possible divestment.



Cautionary Note: *This release may contain forward-looking statements that are based upon management's expectations and beliefs in regards to future events. These statements are subjected to risk and uncertainties that might be out of control of Coalworks Limited and may cause actual results to differ from the release. Coalworks Limited takes no responsibility to make changes to these statements to reflect change of events or circumstances after the release.*

The following statements apply in respect of the information in this report that relates to Exploration Results and Mineral Resources: *The information is based on, and accurately reflects information compiled by Mr Tom Bradbury, who is a Member of The Australasian Institute of Mining and Metallurgy.*

Mr Bradbury is a geologist employed by Geos Mining. He has the relevant experience in relation to the coal deposits being reported on to qualify as a Competent Person as defined in the Joint Ore Reserves Committee (JORC) Australasian Code for Reporting of Exploration Results, Identified Mineral Resources and Ore Reserves. Mr Bradbury has consented in writing to the inclusion in this report of the matters based on the information in the form and context in which it appears.

For further information, please contact:
Mr Andrew Firek, Managing Director & CEO
or Mr Tony Teng, Director & Company Secretary
Tel: +61 2 9922 1344
Fax: +61 2 9922 4288
Email: info@coalworks.com.au
www.coalworks.com.au

About COALWORKS

Coalworks has a portfolio of projects in Australia including:

- 1. Oaklands (JORC measured, indicated and inferred 822Mt thermal coal – see ASX announcement 5.11. 2009;**
- 2. Oaklands Bankable Feasibility Study underway;**
- 3. Strategic Alliance with Synthesis Energy Systems Inc to develop Oaklands coal-to-petrol plant announced – see ASX announcement 2.12.2009**
- 4. Vickery South, Gunnedah Basin (exploration target coking/thermal coal) JORC inferred resource 42MT (see ASX announcement 15 April 2010)**
- 5. Hodgson Vale (exploration target thermal coal)**
- 6. Ashford (limestone deposit with high value lime products as the target).**
- 7. Ferndale Coal Project (Exploration Target 250-330Mt of coking/thermal coal) See ASX announcement 19 July 2010.**