

29th October 2010

Quarterly Report

Activities Report for the Quarter ended 30 September 2010

Summary of Coalworks Limited's Achievements in this Quarter

❖ ***Ferndale Coal Project – Phase 1 Drilling continues.***

Three holes completed and now redrilling of FD001. Three holes remain in the seven-hole Phase 1 drilling project. Multiple seams intersected in both the Newcastle Coal Measures and Upper and Middle Wittingham Coal Measures. The best hole so far has intersected 9 seams greater than 1.5m thick in the Upper and Middle Wittingham Coal Measures, with a cumulative coal thickness of 22m.

❖ ***Vickery South – Land purchased for mine development.***

The outstanding PFS is now being finalised following receipt of the final float sink analyses on all four cored holes drilled at Vickery South. Planning for the next stage of exploration drilling to define a Measured Resource compliant with JORC (2004) guidelines is now being finalised.

❖ ***Oaklands North - Environmental Baseline work and CTL PFS continues.***

Regional ground water monitoring continues at Oaklands North as part of ongoing Baseline work. CTL PFS work is currently ongoing.

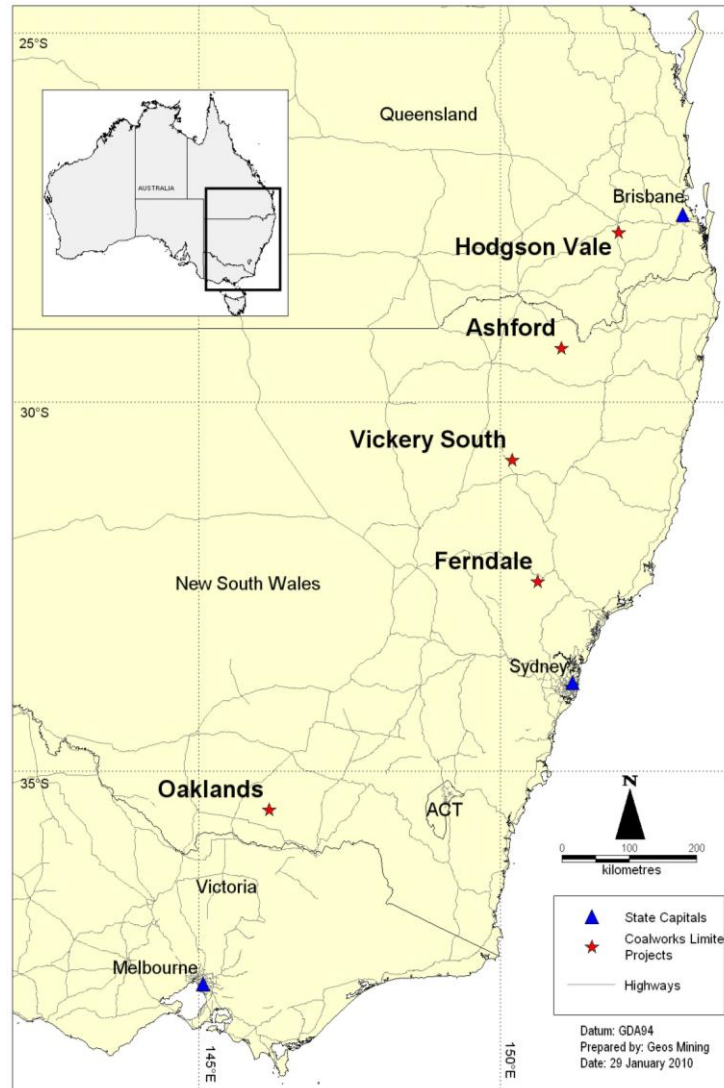
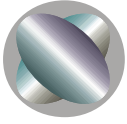
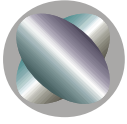


Figure 1: Coalworks Limited – location of projects.

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

Coalworks has continued Phase 1 drilling at Ferndale during this quarter (Figure 2). The Phase 1 drilling plan comprises 7 drill holes concentrating mainly in the north of the tenement. Since the last quarterly report, FD002 has been completed to a depth of 415 m, FD003 has been completed to a depth of 614.84 m and FD004 has been completed since the end of the quarter to a depth of approximately 630 m. The redrill of FD001 has reached more than 160 m depth. All completed holes have been geophysically logged, and geophysical correction of the logs has been completed for FD002 and FD003. The data for FD004 have only just been received, so corrections and correlations are not yet available.



Current hole FD001 is being cored through all coal-bearing sequences down into the upper portion of the Wittingham Coal Measures, and coal cores will be tested for gas content before being analysed. The remaining three holes are designated to be selectively cored, with coal core samples to be taken for quality analyses.

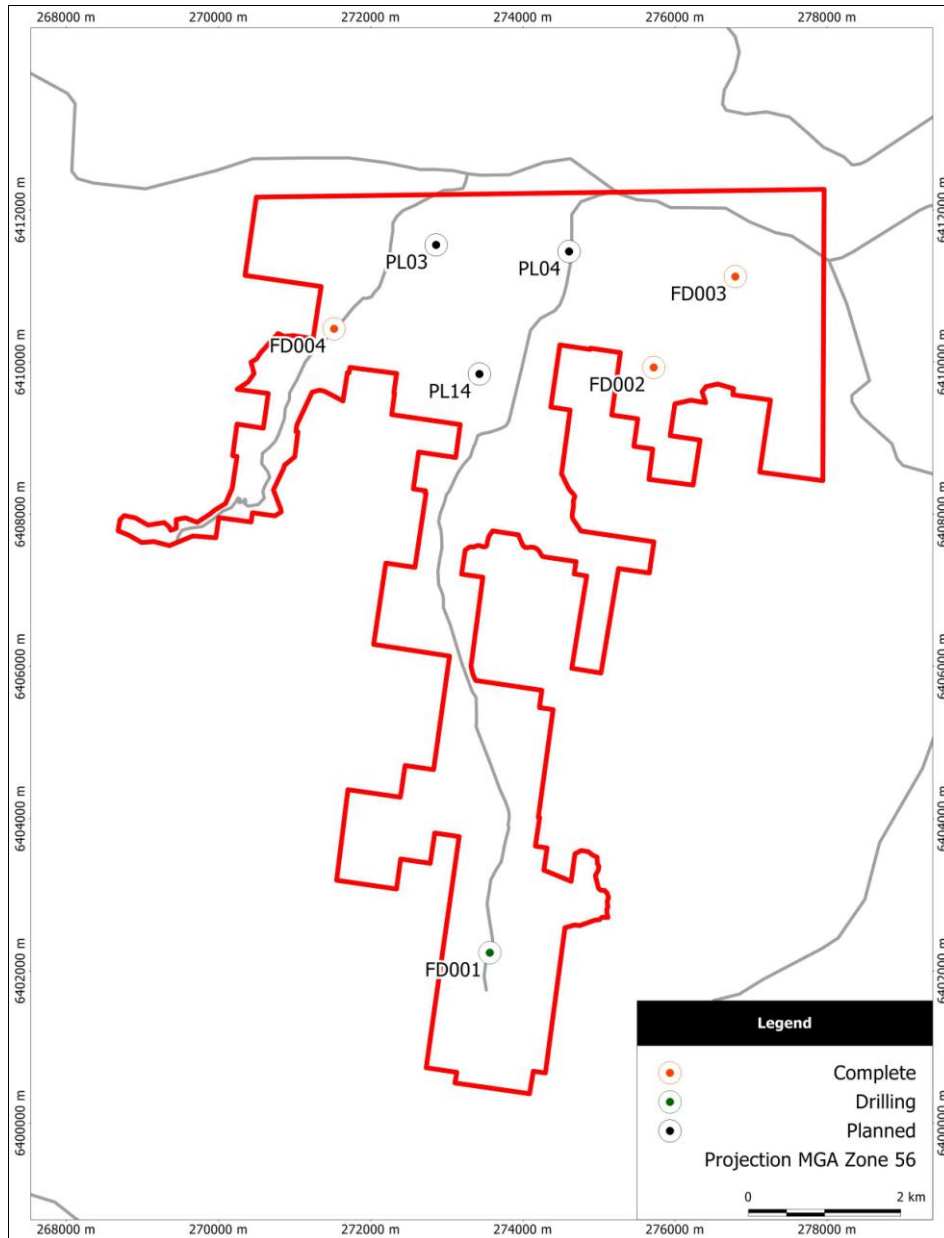
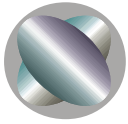


Figure 2: EL7430 Ferndale - initial Phase 1 drillholes (prefixed FD) and drillsites (prefixed PL). NB: FD001 is in progress

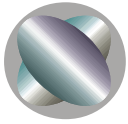


Seam summaries for FD001 - 003 are presented in Table 1 below. Seam assignments are tentative only, and are based on seam correlations with historical drillholes within and adjacent to the tenement

	Coal Seam (correlations tentative only)	FD001			FD002			FD003		
		From	To	Thickness	From	To	Thickness	From	To	Thickness
Newcastle Coal Measures	Great Northern	10.26	13.36	3.1	-	-	-	-	-	-
	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	58.42	59.05	0.65
	Hartley Hill (Lower Split)				94	97	3	60.94	63.17	2.23
	Australasian				134.4	135.63	1.23	93.74	95.84	2.1
	Montrose				137.07	138.67	1.6	96.32	98.07	1.75
	Wave Hill				139.09	143.35	4.26	98.41	102.96	4.55
	Fern Valley (Upper Split)				145.54	146.03	0.49	103.74	105.45	1.71
	Fern Valley (Lower Split)				147.15	148	0.85	105.87	106.63	0.76
	Victoria Tunnel				148.4	150.7	2.3	108.15	111.18	3.03
	Nobbys				171.82	172.83	1.01	137.78	139.06	1.28
	Dudley				173.52	174.03	0.51	139.13	139.56	0.43
	Yard				183.2	183.81	0.61			
Wittingham Coal Measures	Whybrow (Upper Split)				258.08	259.67	1.59	231.18	233	1.82
	Whybrow (Lower Split)				261.31	262.18	0.87	235.04	236.18	1.14
	Redbank Creek				279.06	281.51	2.45	249.32	251.79	2.47*
	Wambo				305.94	307.13	1.19	295.57	298.06	2.49
	Whynot				338.38	341.66	3.28	309.57	311.64	2.07
	Unnamed				363.24	365.68	2.44**	340.85	343.18	2.33*
	Blakefield				380.25	382.75	2.5	356.73	359.39	2.66
	Glen Munro Upper							434.05	434.38	0.33
	Glen Munro Lower							439	439.63	0.63
	Arrowfield							456.45	458.62	2.17
	Bowfield							471.53	472.6	1.07
	Piercefield Lower							508.07	511.85	3.78*
	Vaux							519.06	519.79	0.73
	Broonie Upper							542.89	545.22	2.33
	Broonie Middle							556.06	556.74	0.68
	Broonie Lower							573.05	574.35	1.3
Bayswater							589.65	592.07	2.42***	

Table 1: Coalworks Ferndale Phase 1 Drilling preliminary geophysically corrected seam summary (all values are in metres).

* Includes 0.3-0.4m thick stone band.
 ** geophysics indicates possible high ash coal
 *** intruded and heat-affected



Geological modelling is ongoing during Phase 1 drilling operations, with the model being upgraded as drilling data is acquired. Results from FD003 have led to an increase in underground mining potential. This increase was due to FD003 intersecting the Arrowfield, Piercefield Lower and Broonie Upper seams with thicknesses above the 1.5m minimum thickness limit used for underground mining potential at Ferndale. Samples of these seams have been collected during drilling to assess the quality of these additional seams. Ferndale resource potential may increase, subject to acceptable coal qualities being demonstrated by laboratory testing.

The results of FD004 are pending and when finalised, the geological model and exploration targets will be reviewed.

Coalworks' current target at Ferndale is 330 Mt coking/thermal coal including up to 80 Mt open pit coal in the Newcastle Coal Measures at depths of between 20m and 70m with the targeted coal seams being the Great Northern and Fassifern seams prospective for export thermal coal. The targeted coal also includes the Upper Wittingham at depths greater than 150m with the targeted coal seams being the Whybrow, Wambo, Whynot and Blakefield seams which are prospective for export thermal, semi soft coking and PCI coals. These seams are recognised as high quality mineable seams elsewhere in the Hunter Valley with coking coal potential.

Vickery South EL 7407 (Coalworks Limited 100% reducing to 51%) (see Figure 1)

ITOCHU Coal Resources Australia Ltd a wholly owned subsidiary of ITOCHU Corporation has arranged a loan for Coalworks through National Bank of Australia for the purchase of the land underlying EL7407 which is due to complete in November this year.

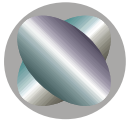
No further exploration work has been conducted on the Vickery South tenement pending finalization of land agreements expected by November this year. Final outstanding float sink analysis work has been completed on Vickery south cores, which will enable the completion of the PFS study.

Coalworks has estimated an Inferred Resource 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 to date. Further assessment of Coalworks data and historical drillhole data from within and around the western section EL7407, has also resulted in the identification of an additional Exploration Target of between 4 to 6.5 Mt of bituminous coal.

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

Oaklands environmental baseline investigations have continued with ongoing ground water monitoring. CTL PFS investigations are continuing.

The CTL study initially envisaged a 7,000 barrels of petrol per day operation at Oaklands which would equate to about 2% of Australian petrol consumption, however larger scale operation options have been evaluated as part of the study and it is likely that a base case will be higher than 7,000 barrels per day.



SES and Coalworks are nearing the end of this study which will complete a major milestone in developing Oaklands North into a world class project.

Hodgson Vale EPC 1145 (Coalworks Limited 100%) (see Figure 1)

No further work was carried out on the Hodgson Vale exploration permit during the last quarter. This project is currently designated to be divested from Coalworks through a corporate transaction which is presently under review.

Ashford EL 6511 (Coalworks Limited 100%) (see Figure 1)

No further work was carried out on the Ashford exploration licence during the last quarter. This project is currently designated to be divested from Coalworks through a corporate transaction which is presently under review.

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.

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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)
Refer ASX announcement 19.07.2010**