



COAL FE RESOURCES LIMITED

QUARTERLY REPORT

For the period ended
31 December 2010

Highlights

Abadi Project:

- **Successful sale and delivery of 20,348 metric tons of coal from the Abadi Project in November 2010**
- **Completion of the private stockyard and jetty serving the mine site**
- **Planned deployment of additional machinery to step up coal production to the initial increased target of 50,000 MT per month**
- **Widening and resurfacing of the part of hauling road within the neighbouring CV Kartanegara Perkasa Coal Concession Area**
- **Coal supply of 50,000 MT per month**

INTRODUCTION

The December Quarter saw the commencement of coal production and trial shipments from the Abadi Project under the Joint Venture arrangement with PT Toba Jaya. PT Toba Jaya has also secured a coal supply arrangement with an international coal purchaser with a monthly quantity of 50,000 MT. The first trial shipment for this contract is targeted to commence in March 2011.

The high incidence of rainfall in the month of December has hindered the production and hauling of coal in the Abadi mine site. Nevertheless, the target of completing the construction of the Abadi private stockyard and jetty was achieved by the end of the quarter under review.

The Company under the joint venture arrangement with PT Toba Jaya now aims to maintain a consistent monthly production of 50,000 MT before moving to the next planned target of 1 million MT per annum by the end of year 2011.

PROJECT REVIEW

ABADI PROJECT

The PT. Pancaran Surya Abadi (“Abadi”) Project is located in the district of Muara Badak and Anggana, Regency of Kutai Kartanegara, in the Province of East Kalimantan (See Figure 1). The area of the concession was adjusted marginally from 1,017 Ha to 991 Ha in the final Mining, Operation and Production Licence (Izin Usaha Penambangan Operasi Produksi or “IUP” in compliance of the new Law on Mineral and Coal Mining No. 4/2009 in the Republic of Indonesia), owing to the requirement of providing the necessary buffer zone for the existing gas pipeline in the vicinity. Of this total concession area, the completed drilling program covered 300 Ha. The remaining 691 Ha is presently unexplored.

The concession area can be reached from Balikpapan by land transportation to Samarinda and thence continued to Selo Lai village. The exploration area is relatively easy to be reached by 4WD vehicles.

The Mining, Operation and Production Licence (IUP Operasi Produksi) provides the necessary authority to carry out the full scope of coal mining activities encompassing construction, production, processing, transportation and sale. The Mining, Operation and Production Licence expires on 10 September 2025.

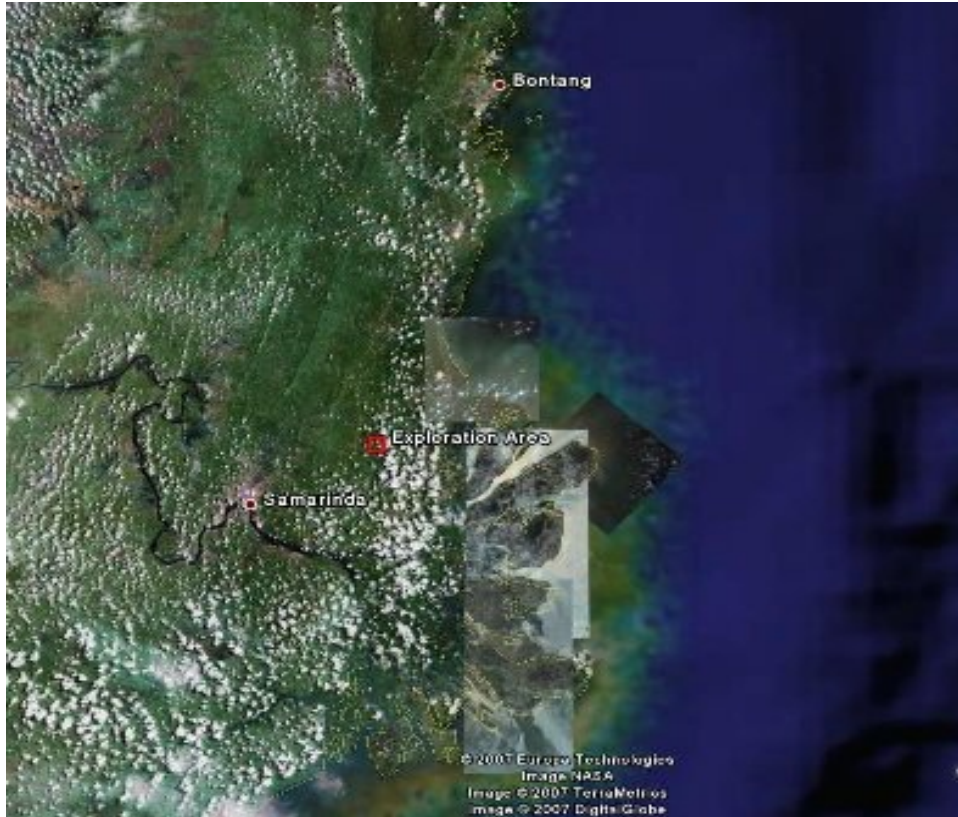


Figure 1: Location of Abadi Project Concession Area

On 3 March 2010, the Company announced the completion of resource modelling and estimation and review in accordance with JORC guidelines.

Table 1 below presents the Coal Resource estimate that has been prepared with consideration to JORC (December 2004) and Australian Coal Reporting Guidelines referenced by JORC.

Resource Category	Initial Coal Resource Announced in 2008, Metric Tonnes (Mt) Million	Revised Coal Resource, Metric Tonnes (Mt) million
Measured	0.440	27.5
Indicated	14.578	6.1
Inferred	12.242	0.9
Totals	27.260	34.5

This estimate was carried out following completion of the second phase drilling at the project between March and May 2009 with a total of 50 additional drill-holes penetrating to a typical depth of 50-100m from surface. The additional drilling was located within the main project area of about 300 Ha located in the south-western portion of the overall concession area. All holes were electronically logged for density, resistivity and width.

Activities during the December Quarter

The December Quarter saw an exceptional high level of rainfall during the North-East monsoon season. Nevertheless, the quarter was marked by the following events:

- Successful trial shipments of 20,348 MT of coal in the month of November.

These initial trial shipments were sold on FOB barge basis in the domestic market. The initial trial shipments were confined to coal with calorific values of 5,000 Kcal/Kg (adb) and below.

- Completion of the private Abadi stockyard and jetty

The stockyard encompasses a site area of approximately 5 hectares and is completed with a crushing facility with a designed throughput of 250 MT/hour. The jetty fronts onto Pangkalan River, a branch of the main coal transporting channel of Mahakam River in East Kalimantan. The jetty can accommodate 8,000MT load barge throughout the year. Initially, loading will be by way of trucking system with a designed throughput of 80,000 MT per month. A conveyor loading system is being studied and will be considered at the next phase of achieving an annual production capacity of 1 million MT.



Figure 1: Completion of earthworks and crushing plant at the Abadi Stockpile

- Widening and resurfacing of sections of the hauling road from mine site to jetty

Part of the hauling road is located within neighbouring coal concession and is maintained by its owner, CV Kartanegara Perkasa (CVKP). Several sections of the hauling road have been widened and resurfaced by CVKP during the quarter. This is critical in maintaining the targeted production.

- Deployment of additional machinery

As part of PT. Toba Jaya's commitment in stepping up production to the next target of 50,000 MT per month, additional machinery comprising bulldozers and hauling trucks have been purchased and expected to be deployed in the next quarter. The schedule of machinery deployed is summarised below:

Description	Present Deployment	Additional Deployment
Excavators	6	-
Bulldozers	3	2
Dump Trucks	26	-
Hauling Trucks	6	16

- 50,000MT Coal Supply

The Company's joint venture partner, PT. Toba Jaya has secured a coal supply arrangement with an international coal purchaser with a quantity of 50,000MT per month subject to price review every quarter. The first trial shipment is planned in March 2011.

- Social Responsibility

As part of the Abadi Mine Development Programme, the village located at the present mine site was relocated to a new location where each affected house owner was given a new site to build a new house. The relocation programme also involves the building of a new mosque and school for the community. The building of the new village is in progress.



Figure 2: Construction of new houses at the new village site in progress



Figure 3: Picture showing the construction of a mosque in the new village



Figure 3: Picture showing construction of the school in the new village

Moving Forward

The Company and its joint venture partner, PT Toba Jaya aim to achieve a stable production and shipment of 50,000MT per month as the immediate target in the next two quarters. New coal seams are being opened up at the moment and coal within the range of 5,100 – 5,300 Kcal/Kg in calorific value will be produced.

The Company plans to carry out the next phase of exploration to prove up the coal resources in the remaining 691 ha of the Abadi Concession in year 2011. The Company is finalising its capital requirements and the appropriate announcement will be made in the near future.

PROJECT REVIEW

PALAPA PROJECT

The Palapa Coal project is a 100 Ha project located upon the western margin of the island of Sulawesi. The regional geology is similar to that observed in Kalimantan with moderate coal production coming from the south western corner of the island.

The project is located within the administrative boundary of the Banti Village, Kecamatan Baraka, Kabupaten Enrekang, South Sulawesi Province and can be reached by two wheel or four wheel drive. Ujungpandang city is approximately 300 kilometres from the project area.

Coal FE has not been able to proceed with work on the 100 Ha Palapa Project during the period. This is due to outstanding obligations under the license that are to be fulfilled by the owners of CV Palapa. Coal FE has negotiated with the owners to allow Coal FE to explore another concession that has been granted to the owners whilst the owners settle its outstanding obligations stated under the license for the Palapa project. The new concession area is known as *Palapa 2* project.

Palapa 2 project is a 2,946 Ha concession area located next to the Palapa project and has been offered to Coal FE at initially no cost to the company to carry out exploration activity. An exploration license has been issued for the concession area which expired on 1 November 2008 and can be renewed once payment is made for the extension.

Activities during the December Quarter

No activity has been carried out in the Palapa 2 Project during the quarter under review. Upon availability of funds, the Company will review the extension of the exploration licence and exploration of the project.

PROJECT REVIEW

ANDALAS PROJECTS

The Company (through its subsidiary, PT Techventure Indocoal) has a 70% interest in four (4) Indonesian companies, which currently holds exploration licenses for iron concessions in Central and West Sumatra, Indonesia. Details of the iron concessions are as follows:

Table 3: Andalas Project Concession Areas Summary

Project	Location	JV Partner / Manager	Area Ha	Target Type / Comments
Andalas Mangani Perkasa	Kecamatan Rao	PT Andalas Mangani Perkasa	5,116	Bedded Iron Deposit
Andalas Platina Orienta	Kecamatan Lubok Sikaping	PT Andalas Platina Orienta	2,491	Bedded Iron Deposit
Andalas Basindo Natura	Kecamatan Rao, Rao Selatan and Padang Gelugur	PT Andalas Basindo Natura	3,317	Bedded Iron Deposit
Andalas Alam Nasindo	Kecamatan Lubok Sikaping	PT Andalas Alam Nasindo	1,634	Bedded Iron Deposit
TOTAL			12,558	

The concession areas can be reached by daily flight from Jakarta to Padang (1 hour and 30 minutes). From Padang the journey continues by car (4 hours drive) through the well-paved Trans-Sumatera highway to a village called Air Manggis (about 10 minutes by car from Lubok Sikaping, capital city of Pasaman regency). From Air Manggis Village there is another one hour walk to Sariak Laweh Hill with a moderate to steep slope.

Activities during the December Quarter

No activity has been carried out in the Andalus Project during the quarter under review. Upon availability of funds, the Company will review the exploration of the project.

"The information in this report that relates to previously reported Mineral Resources is based on a resource estimate compiled by Mr. Edward Radley, Member of the AusIMM in the capacity of full time employee and Senior Resource Consultant at Ravensgate. Mr. Radley 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 in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Radley consents to the inclusion in the report of the matters based on his information in the form and context in which it appears."