

COALWORKS Limited

15 June 2011

VICKERY SOUTH PFS INCREASED FROM 2 TO 3 MTPA

- **Resource increase to 51Mt (ASX 23.2.2011) has allowed PFS to increase pit shell size to produce 33% more product coal over expected mine life**
- **Vickery South Coal Project increased to 3Mtpa Project**
- **Mine to produce 83% semi soft coking coal**
- **NPV increases to \$243m with 23% IRR with 3Mtpa**

Coalworks (Vickery South) Pty Ltd (**CVS**), a wholly owned subsidiary of Coalworks Limited (**ASX: CWK**) has received its Preliminary Feasibility Study (PFS) update from their consultants (Minarco-MineConsult), to develop the Vickery South Coal Mine, coal handling and preparation plant and mine infrastructure.

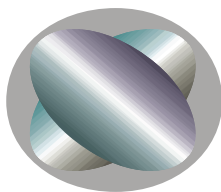
The previous PFS Study announced on 9 November 2010 was based on a 2 million tonnes per annum (Mtpa) production case with the 3Mtpa option considered as a conceptual case only to demonstrate the project potential should be more than the JORC 42 million tonnes (Mt) result. (42Mt inferred semi-soft coking and thermal coal JORC resource was the estimate used in the 2010 study).

Additional drilling increased the Vickery South Inferred Resource by 20% to 51Mt Inferred semi-soft coking and thermal coal (ASX Release: 23 February 2011). This allowed the development of a new open cut pit shell containing 43.2Mt of run-of mine (ROM) coal which is a 33% increase from the PFS. There are sufficient tonnes within the pit shell to support a 3Mtpa ROM mining rate at Vickery South. However, an updated economic evaluation has been done on both the 2Mtpa and 3Mtpa cases.

The key outcomes of the PFS update are as follows:

- 3Mtpa case has a 16 year mine life producing a total of 43.2Mt ROM Coal which after washing at 83% yield would produce 30Mt of semi soft coking coal and 6.3Mt of thermal coal;
- The FOB direct operating cost for the 3Mtpa case is favourable compared to industry benchmarks;
- Project Net Present Value (NPV) at a 10% discount rate, is \$243M with Internal Rate of Return (IRR) of 23.0% for the 3 Mtpa case; and
- Project NPV of \$159M at a 10% discount rate, with IRR of 19% for the 2 Mtpa case.

The overall average yield is estimated at 83% based on using the same yield assumptions as the 2010 PFS. An average of 83% of the product will be semi-soft coking coal with a CSN greater than 4 and ash of less than 8.5% (air dried moisture of 3.5%) and product moisture



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of 12.6%. The remainder will be a low ash (5.9% ad), high calorific value (7,424 kcal/kg (ad)) thermal coal. A number of key assumptions in the PFS have been confirmed.

NPV has been assessed a range of discount factors as shown in the table below:

Discount Rate	3 Mtpa PFS Update Case (\$M)	2 Mtpa PFS Update Case (\$M) (2011)
8%	323	232
10%	243	159
12%	180	104

The results of the Phase 2 and 3 drilling and PFS update are positive for the Vickery South Project. The key outcomes are:

- Significant upgrade in geological confidence;
- Pit shell has been designed to contain 43.2Mt with a strip ratio of 10.7 to 1 which represents a 33% increase in mineable coal quantity;
- Coal resource now supports a 3Mtpa operation;
- \$102m increase in base case NPV (10% discount rate) up from the 2010 NPV of \$141m (2Mtpa) to \$243m at the 3Mtpa rate; and
- IRR has increased from 19% (2Mtpa) up to 23%.

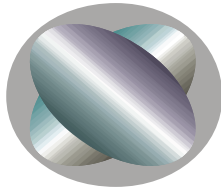
These outcomes are based on a number of technical assumptions which remain commercial in confidence and which will be confirmed in the BFS Study due early next year. Updated Resource and Reserve estimates are due by mid July which will support Coalworks' submission for port allocation in August.

The PFS modeling has allowed for the input of a carbon tax assumed at \$20 per tonne of CO₂ emitted. The PFS review allows commencement of the BFS study on the 3Mtpa production rate with increased IRR and NPV, becoming an even more attractive project.

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 announcement that relates to Exploration Results and Mineral Resources for the Vickery South Project: *The information is based on, and accurately reflects information compiled by Mr Matt Morgan, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Morgan is a geologist employed by Coalworks Limited.*

Mr Morgan 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 Identified Mineral Resources and Ore Reserves. Mr Morgan 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.



COALWORKS Limited

For further information, please contact:

Nathan Bartrop

Company Secretary

Tel: +61 2 9922 1344

Fax: +61 2 9922 4288

Email: info@coalworks.com.au

www.coalworks.com.au

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 Resources Increases by 20% to 51Mt (See ASX Announcement 23.02.2011)
ITOCHU signs Farm In Agreement in \$11m deal (see ASX announcement 04.05.2010)
Preliminary Feasibility Study – positive with semi soft coking coal forming 84% of product (see ASX announcement 09.11.2010)
ITOCHU Farm-in Stage 1 payment of \$5m and signing of JV agreement sees Itochu acquired a 29% interest in Vickery South (see ASX announcements 22.12.2010 & 23.2.2011)
ITOCHU to proceed with BFS for Vickery South (see ASX Announcement 18.5.2011)
5. **Hodgson Vale (exploration target thermal coal)**
6. **Ashford (limestone deposit with high value lime products as the target)**
7. **Ferndale Coal Project**
Coalworks includes its 92.5% owned subsidiary Loyal Coal Pty Ltd
New Exploration Target 350Mt – 530Mt of coking/thermal coal (See Announcement 19.11.2010)
Boardwalk Resources signed Farm-In and Joint Venture Agreements in \$25m deal (see ASX announcement 09.12.2010)