



29 July 2011

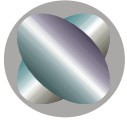
Quarterly Report

Activities Report for the Quarter ended 30 June 2011

Summary of Coalworks Limited's Achievements in this Quarter

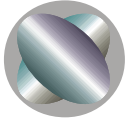
- ❖ **Ferndale Coal Project – Stage 2 Drilling nearing completion.**
Stage 2 drilling continuing and nearing completion with 7 holes completed, 1 hole in progress and 1 more hole due to complete the program;
- ❖ *Technical review of Stage 1 and Stage 2 drilling results progressing, aimed at identifying Coal Resources in the Newcastle and Wittingham coal measures;*
- ❖ *Stage 3 drillhole planning in progress, aimed at delineating open cut coal resources in Newcastle Coal Measures. Expected to begin drilling Stage 3 by the end of August.*

- ❖ **Vickery South – Resources upgraded and increased to 58.5 Mt .**
- ❖ *Includes 48 million tonnes of Measured Resources and 10.4 million tonnes of Inferred Resources.*
- ❖ *Large diameter coring and hydrological testing completed.*
- ❖ *The previous resource increase to 51 million tonnes of bituminous coal (ASX 23.2.2011) has allowed the Preliminary Feasibility Study (PFS) update to:*
 - *Increase pit shell size to produce 33% more product coal over expected mine life.*
 - *Increase the Vickery South Coal Project from a 2Mtpa to a 3Mtpa project.*
 - *Increase NPV (10% discount rate) of the 3Mtpa project to \$243m with 23% IRR.*
- ❖ *Vickery South Mine to produce a product on average of 83% semi soft coking coal.*
- ❖ *ICRA Vickery Pty Ltd has advised that it intends to proceed to completion of the Bankable Feasibility Study (BFS).*



- ❖ **Oaklands North - Environmental Baseline work and CTL PFS continues.**
- ❖ *Regional ground water monitoring continues at Oaklands North as part of ongoing Baseline work. CTL pre feasibility study work is currently ongoing as a component of study work currently being completed by Minarco-MineConsult.*

- ❖ **Orpheus Energy Group Pty Ltd**
- ❖ *Orpheus Energy Group Pty Ltd is in the process of being divested from Coalworks Limited in a separate stock exchange listing (ASX:OEG).*
- ❖ *The Priority Offer (for Coalworks shareholders) and the Public Offer have both been extended.*
- ❖ *The Orpheus Energy Offer is now being underwritten by BBY Limited and sub underwritten by Coalworks.*
- ❖ *OEG is expected to list in early August 2011.*



The locations of Coalworks' projects in Australia are shown in Figure 1 below.

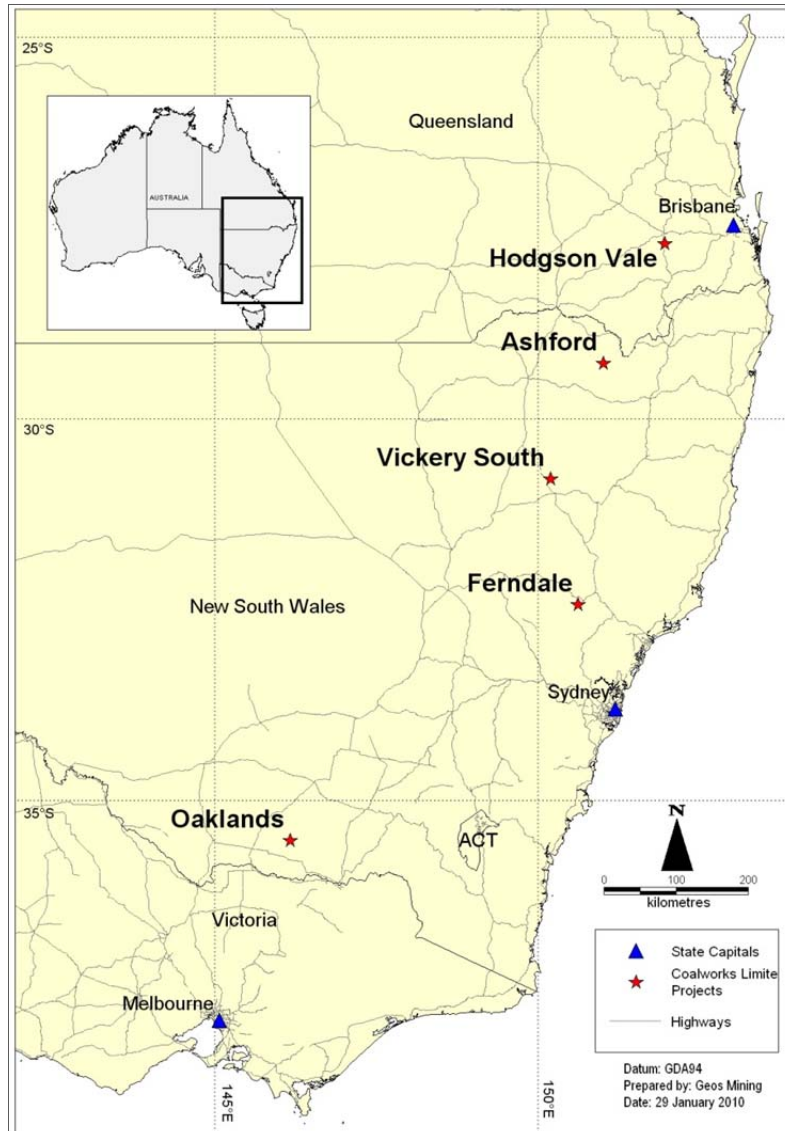
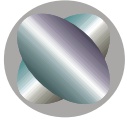


Figure 1: Coalworks Limited – location of projects.



Ferndale EL 7430 (Coalworks 92.5%, coal exploration)

Coalworks' subsidiary Loyal Coal is continuing its Stage 2 drilling program at Ferndale (EL 7430) (Figure 2). Stage 2 holes completed in Q2 include FD009, FD010, FD011, FD012, FD013, FD014 and FD015. Hole FD016 is in progress (Figure 2) with one drilling rig currently onsite. Hole FD012 was abandoned at 70.99m due to severe hole caving and is to be redrilled.

The Stage 2 drilling program comprises 9 cored holes situated in the northern, central and southern portions of the tenement. Stage 2 is aimed at further delineating the Newcastle and Wittingham coal measures in order to identify coal resources.

An assessment of both Stage 1 and Stage 2 drilling results is underway and it is envisaged that Coal Resources (classified in accordance with the JORC Code) may be established for mining opportunities within the Wittingham Coal Measures. Also underway is planning for subsequent Stage 3 drilling aiming at delineating open cut coal resources within the Newcastle Coal Measures.

Coalworks' current Exploration Target at Ferndale is 350 to 530 Mt of coking/thermal coal. This includes 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, which are prospective for export thermal coal. The target also includes 100-175 Mt from the upper Wittingham Coal Measures at depths greater than 150m, with the targeted coal seams being the Whybrow, Wambo, Whynot and Blakefield seams, which elsewhere in the Hunter Valley have export thermal, semi soft coking and PCI potential. The remainder of the target comprises 200-275 Mt from the middle Wittingham Coal Measures, with the main tentatively-correlated target seams being the Arrowfield, Bowfield, Piercefield Lower, Broonie (both upper and lower splits), and Bayswater seams. These are recognised as high quality mineable seams with export thermal and coking potential elsewhere in the Hunter Valley.

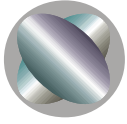
Tables 2 to 7 below, present geophysically-corrected seam summaries for holes FD008, FD009, FD010, FD011, FD013, and FD014. Results from recently completed hole FD015, will be presented when available. Potential working seams will be identified once laboratory results are received. The Newcastle Coal Measures contain stone bands that may be removed with selective mining.

For seam summaries of previous holes FD001 to FD007, please see ASX announcements 30.10.2010, 19.11.2010, 31.11.2011 and 18.03.2011.

Ply analysis results for the Stage 1 cored holes FD001, 003, 004 and 007 have been received, with analysis of the completed Stage 2 holes pending, and to be assessed when available.

Crucible swelling number (CSN) analysis results for raw coal samples taken during the gas desorption testing in FD003 and FD004, are now available, and are presented in Table 1 where CSN is greater than 3. Only seams below 200m depth of cover were sampled, and for FD001 the hole was drilled to the base of the Blakefield Seam only. Results confirm coking potential in several seam sections in the middle Wittingham Coal Measures.

Seams from the Hartley Hill Seam down, were intersected in the majority of the Stage 1 and Stage 2 holes, while one or more of the overlying Upper Pilot, Fassifern and Great Northern seams were intersected in several holes north of FD009. Holes FD009, FD010, FD011 and FD013 were drilled through the Newcastle and Wittingham coal measures down to the



Bayswater Seam, while FD008 and FD014 were drilled to the base of the Newcastle Coal Measures.

FD003	Sample ID	Depth From (m)	Depth To (m)	Thickness (m)	Crucible Swelling Number (CSN)	Seam
	FD003C08	511.21	511.85	0.64	3 1/2	Piercefield 2
	FD003C10	521.26	521.73	0.47	4 1/2	Unnamed Seam 1.5m below Vaux
	FD003D04	573.47	574.35	0.88	3 1/2	Broonie 3
	FD003D06	591.37	592.07	0.70	5 1/2	Bayswater

FD004	Sample ID	Depth From (m)	Depth To (m)	Thickness (m)	Crucible Swelling Number (CSN)	Seam
	FD004F05	538.24	538.96	0.72	6 1/2	Piercefield 2
	FD004F07	570.47	571.09	0.62	6 1/2	Broonie 1
	FD004G07	618.49	619.25	0.76	5	Bayswater 2
	FD004G08	619.25	619.63	0.38	5	Bayswater 2
	FD004G09	620.10	620.54	0.44	6 1/2	Bayswater 3

Table 1 – Coal analysis results for FD003 and FD004 where CSN >3 (air dried basis) (NB: depths have been geophysically corrected)

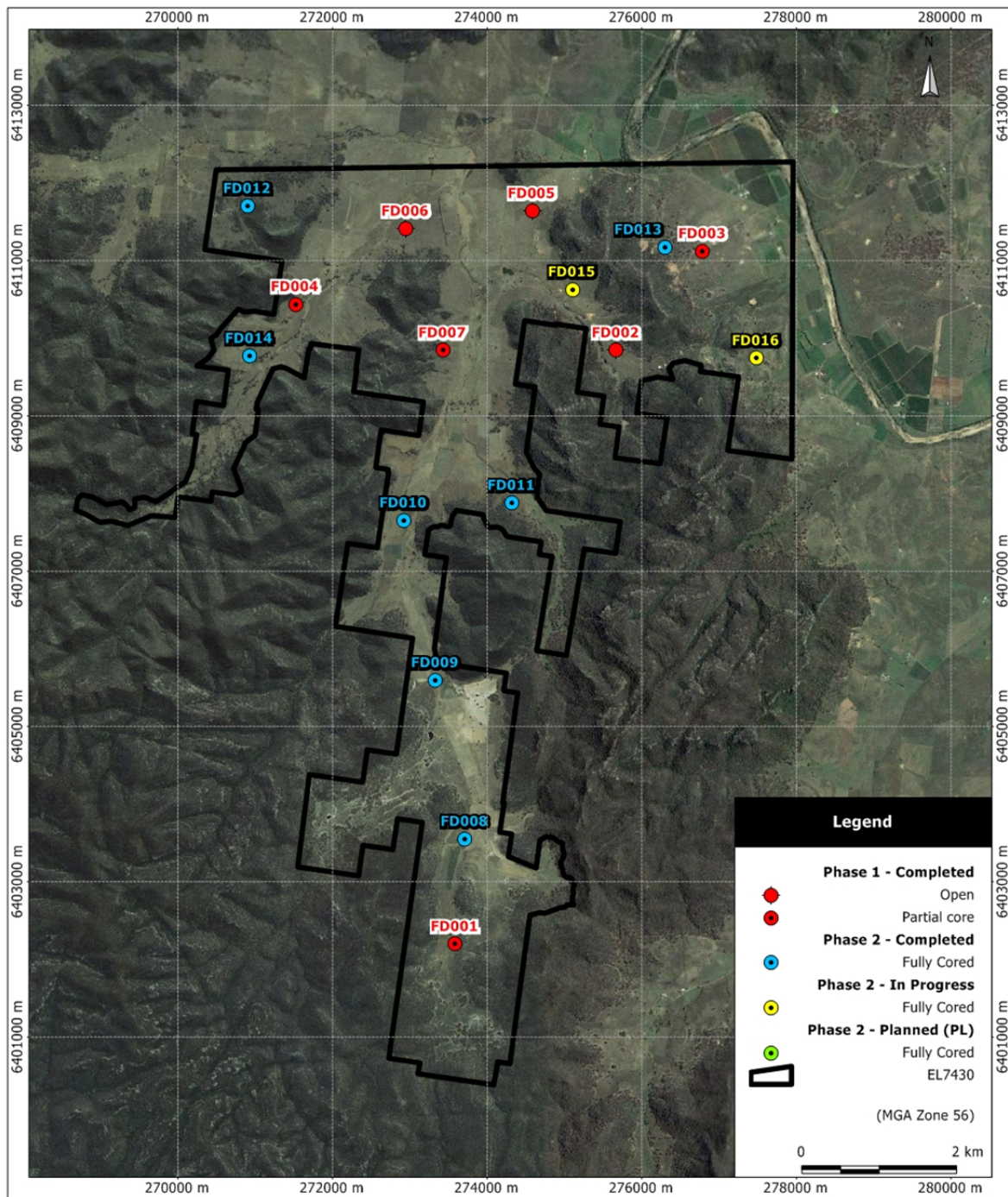
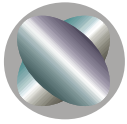
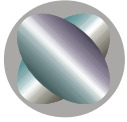


Figure 2: EL 7430 Ferndale - Completed Stage 1 and 2 drillholes (Prefixed FD) and planned Stage 2 drill holes (Prefixed PL) (FD015 has recently been completed).



	Coal Seam (correlations tentative only)	FD008 (fully cored from 6.00m)		
				Geological Section Thickness (m)
		From (m)	To (m)	
Newcastle Coal Measures	Hartley Hill	13.71	16.70	2.99
	Australasian	39.40	40.36	0.96
	Montrose	40.75	42.28	1.53
	Wave Hill	42.63	46.96	4.33
	Fern Valley	91.31	92.59	1.28
	Victoria Tunnel	92.78	93.45	0.67
	Nobbys	103.56	105.11	1.55
	Dudley	107.20	108.20	1.00
	End of hole 132.06m			

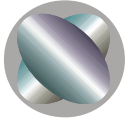
	Coal Seam (correlations tentative only)	FD009 (fully cored from 32.5m)			
				Geological Section Thickness (m)	
		From (m)	To (m)		
Newcastle Coal Measures	Australasian	40.80	41.75	0.95	
	Montrose	41.75	42.73	0.98	
	Wave Hill	43.04	47.38	4.34	
	Fern Valley	74.14	77.50	3.36	
	Victoria Tunnel	77.94	78.72	0.78	
	Nobbys	90.47	92.46	1.99	
	Yard	103.74	104.24	0.50	
	Whittingham Coal Measures	Whybrow (Upper Split)	166.50	166.94	0.44
		Whybrow (Lower Split)	167.41	168.07	0.66
Redbank Creek Upper 1		190.57	191.04	0.47 ^s	
Redbank Creek Upper 2		192.22	193.07	0.85	
Redbank Creek 1		195.20	196.06	0.86	
Redbank Creek 2		196.40	198.26	1.86	
Wambo		220.60	221.59	0.99	
Whynot		239.74	243.04	3.30*	
Blakefield		267.56	269.50	1.94*	
Glen Munro (Upper Split)		326.88	327.23	0.35	
Glen Munro (Lower Split)		330.88	331.30	0.42	
Arrowfield		342.86	343.41	0.55	
Bowfield		366.72	367.60	0.88	
Warkworth		393.19	394.24	1.05 [^]	
Piercefield 1		406.18	407.78	1.60 ^s	
Broonie 1		466.28	468.13	1.85 [^]	
Broonie 2		472.13	472.75	0.62	
Broonie 3		491.53	493.69	2.16* [^]	
Bayswater 1		528.79	532.05	3.26	
Bayswater 2		534.64	536.43	1.79	
Bayswater 3	541.52	544.56	3.04		
End of hole 548.60m					

Tables 2 & 3 – Seam summary for holes FD008 and FD009 (NB: all depths have been geophysically corrected)

* Includes >0.3m thick stone band

^sGeophysics indicates possible high ash coal

[^]Heat Affected and Intruded Coal



	Coal Seam (correlations tentative only)	FD010 (fully cored from 35m)		
		From (m)	To (m)	Geological Section Thickness (m)
Newcastle Coal Measures	Upper Pilot	41.33	41.79	0.46
	Hartley Hill 1	72.93	73.51	0.58
	Hartley Hill 2	74.01	74.32	0.31
	Hartley Hill 3	74.35	74.55	0.20
	Australasian	99.21	100.45	1.24
	Montrose	101.14	102.94	1.80
	Wave Hill	103.31	108.03	4.72
	Fern Valley	114.70	115.96	1.26
	Victoria Tunnel 1	116.31	117.44	1.13
	Victoria Tunnel 2	117.75	118.09	0.34
	Nobbys	142.19	143.03	0.84
	Dudley	143.32	144.08	0.76
	Yard	152.29	152.79	0.50
	Whittingham Coal Measures	Whybrow 1(Upper Split)	220.48	221.10
Whybrow 1(Lower Split)		221.49	222.26	0.77
Whybrow 2		223.95	225.01	1.06
Redbank Creek 1		246.74	247.85	1.11
Redbank Creek 2		248.19	249.95	1.76
Wambo		276.82	278.01	1.19
Whynot		300.38	304.02	3.64
Blakefield		366.63	368.60	1.97
Glen Munro 1		417.76	418.29	0.53
Glen Munro 2		434.72	435.20	0.48^
Arrowfield		455.37	457.04	1.67
Bowfield		470.54	471.71	1.17
Warkworth		495.68	498.61	2.93
Mt Arthur		501.68	502.16	0.48
Piercefield 1		506.17	506.86	0.69
Piercefield 2		518.41	519.30	0.89
Vaux		535.89	536.49	0.60
Broonie 1 (Upper Split)		567.17	567.76	0.59
Broonie 1 (Lower Split)		568.24	569.20	0.96
Broonie 2		569.51	571.26	1.75
Broonie 3	575.44	578.04	2.60	
Bayswater 1	586.25	590.69	4.44	
End of hole 596.81m				

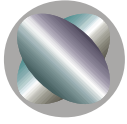
	Coal Seam (correlations tentative only)	FD011 (fully cored from 23.52m)			
		From (m)	To (m)	Geological Section Thickness (m)	
Newcastle Coal Measures	Hartley Hill	63.92	66.22	2.30	
	Australasian	104.55	105.81	1.26	
	Montrose	106.25	108.07	1.82	
	Wave Hill	108.45	113.19	4.74	
	Fern Valley	116.46	117.51	1.05	
	Victoria Tunnel	118.06	119.88	1.82	
	Nobbys	148.41	149.22	0.81	
	Dudley	150.06	150.49	0.43	
	Yard	160.08	160.56	0.48	
	Whittingham Coal Measures	Whybrow	223.82	226.20	2.38
		Redbank Creek Upper	237.70	238.54	0.84
		Redbank Creek Lower	240.77	242.86	2.09
Wambo		267.01	267.70	0.69	
Whynot		298.73	300.82	2.09	
Blakefield Upper		357.94	359.09	1.15	
Blakefield Lower		360.48	360.79	0.31	
Glen Munro Upper		404.76	405.34	0.58	
Glen Munro Lower		422.76	423.46	0.70	
Arrowfield		444.33	446.11	1.78	
Bowfield		457.14	458.39	1.25	
Warkworth		482.72	486.27	3.55	
Piercefield 1		494.25	494.50	0.25	
Piercefield 2		509.21	510.25	1.04	
Vaux		537.62	539.27	1.65	
Broonie 1 Upper		553.05	553.90	0.85	
Broonie 1 Lower		555.44	556.10	0.66	
Broonie 2		557.32	559.67	2.35*	
Broonie 3		563.59	565.45	1.86	
Bayswater 1		576.74	581.68	4.94	
Bayswater 2	586.85	588.76	1.91*		
Bayswater 3	590.57	591.50	0.93 [§]		
End of hole 612.67m					

Tables 4 & 5 – Seam summary for holes FD010 and FD011 (NB: all depths have been geophysically corrected)

*Includes >0.3m thick stone band

[§]Geophysics indicates possible high ash coal

[^]Heat Affected and Intruded Coal

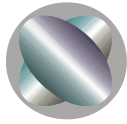


	Coal Seam (correlations tentative only)	FD013 (fully cored from 27.45m)		
		From (m)	To (m)	Geological Section Thickness (m)
Newcastle Coal Measures	Greater Northing	10.70	11.70	1.00
	Fassifern	25.83	28.28	2.45
	Upper Pilot	29.53	30.54	1.01
	Lower Pilot (1.72m interburden)	56.83	60.33	3.50
	Unknown Seam	71.93	72.75	0.82
	Unknown Seam	76.77	77.12	0.35
	Hartley Hill Upper	94.23	95.11	0.88
	Hartley Hill Lower	97.19	99.33	2.14
	Australasian	121.63	122.99	1.36
	Montrose	123.82	125.38	1.56
	Wave Hill (1.08m interburden)	125.71	130.02	4.31
	Fern Valley	145.47	145.80	0.33
	Victoria Tunnel	146.65	150.89	4.24
	Nobbys	176.82	178.00	1.18
	Dudley	178.07	178.39	0.32
	Yard	190.69	190.98	0.29
	Whittingham Coal Measures	Whybrow Upper	269.78	271.63
Whybrow Lower		273.69	274.88	1.19
Redbank Creek		286.56	289.02	2.46*
Wambo		330.74	333.01	2.27*
Whynot		348.03	349.95	1.92
Unknown Seam		360.60	360.93	0.33 [§]
Unknown Seam		376.58	378.81	2.23* [§]
Blakefield		392.68	395.22	2.54
Glen Munro Upper		480.16	480.51	0.35
Glen Munro Lower		481.00	481.83	0.83
Arrowfield		486.13	488.36	2.23*
Bowfield		501.96	502.94	0.98
Piercefield 1		536.24	538.03	1.79
Piercefield 2		538.36	539.66	1.30
Vaux		546.73	547.37	0.64
Broonie 1		573.52	575.90	2.38
Broonie 2		583.42	584.08	0.66
Broonie 3 Upper		599.77	601.15	1.38
Broonie 3 Lower		615.25	616.72	1.47
Bayswater Rider		643.52	645.41	1.89
Bayswater 1		649.38	658.20	8.82
Bayswater 2	664.69	665.84	1.15	
Bayswater 3	667.13	668.11	0.98	
End of hole 689.50m				

	Coal Seam (correlations tentative only)	FD014 (fully cored from 17.52m)		
		From (m)	To (m)	Geological Section Thickness (m)
Newcastle Coal Measures	Greater Northing	33.20	35.84	2.64
	Fassifern	54.38	56.49	2.11
	Upper Pilot (2.01m interburden)	56.74	61.32	4.58
	Lower Pilot	79.32	80.44	1.12
	Hartley Hill	120.11	123.49	3.38
	Australasian	146.03	147.29	1.26
	Montrose	147.54	149.09	1.55
	Wave Hill	149.51	153.70	4.19
	Fern Valley	165.88	166.65	0.77
	Victoria Tunnel	166.97	169.64	2.67
	Nobbys	194.77	195.67	0.90
	Dudley	196.85	197.33	0.48
	Yard	205.94	206.53	0.59
	End of hole 222.44m			

*Includes >0.3m thick stone band
[§]Geophysics indicates possible high ash coal
[^]Heat Affected and Intruded Coal

Tables 6 & 7– Seam summary for holes FD013 and FD014 (NB: all depths have been geophysically corrected)



Vickery South EL 7407

(Coalworks (Vickery South) Pty Ltd 71% ICRA Vickery Pty Ltd 29%)

Coalworks Limited announced (ASX Release 18.05.2011) that its joint venture partner ICRA Vickery Pty Ltd (wholly owned subsidiary of ITOCHU Corporation) has advised that it intends to proceed to completion of the Bankable Feasibility Study (BFS). ITOCHU will also arrange the sale and marketing of all thermal and coking coal to be produced from Vickery South.

Updated Resources (calculated in accordance with the JORC Code) have been identified and total 58.5 Mt (ASX Release: 18.07.2011). These Resources include:

- **48 Million Tonnes of Measured Resources and 0.1 Million Tonnes of Indicated Resources** within the Eastern Zone.
- **10.4 Million Tonnes of Inferred Resources** within North West & South West Zones.

Coalworks Vickery South received the updated Preliminary Feasibility Study (PFS) (ASX Release 15.06.2011) from Minarco-MineConsult based upon the Inferred Resource of 51Mt (ASX Release: 23.02.2011). The PFS update has 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 original PFS. In addition, the increased coal resource has allowed the ROM mining rate to support a 3Mtpa operation. Economic evaluations have been carried out on both the 2Mtpa and 3Mtpa cases in the study. Key outcomes from the PFS update include:

- 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;
- Project Net Present Value (NPV) at a 10% discount rate, is \$243M with an Internal Rate of Return (IRR) of 23% for the 3Mtpa case (Summary of NPV for various discount rates and cases is shown in Table 8)

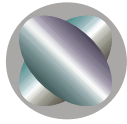
Discount Rate	3 Mtpa PFS Update Case (\$M)	2 Mtpa PFS Update Case (\$M)
8%	323	232
10%	243	159
12%	180	104

Table 8 – NPV for 2Mtpa and 3Mtpa cases for discount rates of 8%, 10% and 12%.

The PFS envisages that the average semi-soft coking coal product would have a CSN greater than 4 and ash of less than 8.5% (air dried moisture of 3.5%) and product moisture of 12.6%. The remaining product would be a low ash (5.9% ad), high calorific value (7,424 kcal/kg (ad)) thermal coal.

The Vickery South BFS is planned to be completed late in the second quarter, 2012. Mine planning and mine reserve estimates will be finalised in time for the Vickery South Joint Venture to participate in the 2011 round of capacity applications by Port Waratah Coal Services at the end of August 2011.

Large diameter drilling and hydrological testing have been completed.



Oaklands North EL 6861 (Coalworks Limited 100%)

Environmental baseline, hydrogeology monitoring, and various coal tests and CTL prefeasibility work continued during the reporting period in preparation for pre feasibility studies. This is part of a preliminary feasibility study by Minarco-Mineconsult who have been engaged to review all geological data and conduct the study.

The ground water level monitoring and analysis by hydrogeological consultants following straddle pack drilling test work results, indicates that previously estimated dewatering requirements are likely.

The pre feasibility studies is aimed at investigating the potential for a CTL plant to process the Lanes Shaft Seam at Oaklands by open cut mining methods.

Hodgson Vale EPC 1145 (Coalworks Limited 100%)

No further work was undertaken on the Hodgson Vale exploration permit during the previous quarter. This project is currently designated to be divested from Coalworks through a corporate transaction proposed with Orpheus Energy Limited in a separate stock exchange listing.

Ashford EL 6511(Coalworks Limited 100%)

No further work was been carried out on the Ashford exploration licence during the previous quarter. This project is currently designated to be divested from Coalworks through a corporate transaction proposed with Orpheus Energy Limited in a separate stock exchange listing.

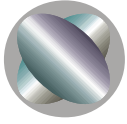
ORPHEUS ENERGY GROUP PTY LTD

Orpheus Energy Group Pty Ltd is in the process of being divested from Coalworks Limited in a separate stock exchange listing, Orpheus Energy Limited (ASX:OEG).

OEG lodged a prospectus on 24 May 2011 and a supplementary prospectus on 27 June 2011.

The supplementary prospectus was lodged to extend the Priority Offer (for Coalworks shareholders) to 27 July 2011 and the Public Offer to 29 July 2011, to note that the revised minimum subscription of \$7.5M is underwritten by BBY Limited in the amount of \$7.5M and fully sub-underwritten by Coalworks Limited.

OEG is anticipated to be relisted in early August 2011, subject to meeting all ASX requirements prior to relisting.



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: 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.

The following statements apply in respect of the information in this report that relates to Mineral Resources: 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. 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 Identified Mineral Resources and Ore Reserves.

For further information, please contact:
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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. **Strategic Alliance with Synthesis Energy Systems Inc to develop Oaklands coal-to-petrol plant announced** – see ASX announcement 2.12.2009
3. **Vickery South, Gunnedah Basin (exploration target coking/thermal coal)**
JORC Resources Increase by 15% to 58.5Mt (See ASX Announcement 18.07.2011)
ITOCHU signs Farm In Agreement in \$11m deal (see ASX announcement 04.05.2010)
Preliminary Feasibility Study – positive with semi soft coking coal forming 83% of product (see ASX announcement 15.06.2011)
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)
4. **Hodgson Vale (exploration target thermal coal)**
5. **Ashford (limestone deposit with high value lime products as the target).**
6. **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)