



29 April 2011

Quarterly Report

Activities Report for the Quarter ended 31 March 2011

Summary of Coalworks Limited's Achievements in this Quarter

- ❖ **Ferndale Coal Project – Phase 1 Drilling completed and Phase 2 commenced.**

All 7 Phase 1 drillholes were completed to target depths;

Exploration Target of 350 to 530 Mt of export quality thermal coal and coking coal in the Newcastle Coal Measures and Wittingham Coal Measures;

Initial coal analysis results from Wittingham Coal Measures are promising for coking potential;

Boardwalk has commenced Phase 2 drilling comprising 9 fully cored holes with 1 hole completed and 2 holes currently underway.
- ❖ **Vickery South – Measured Resource Drilling completed**

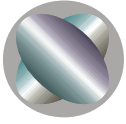
Results from Stage 2 and Stage 3 drilling programs, comprising 61 drillholes (totalling approximately 8,000m), are being assessed and are aimed at upgrading the current Inferred Resources to Measured status;

Inferred Resources have been increased by 20% to 51Mt;

Large diameter coring, aimed at acquiring coal samples for further coal quality analysis, has commenced and is expect to be completed in May 2011.
- ❖ **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.
- ❖ **Orpheus Energy Group Pty Ltd**

B26 Coal Project in Indonesia, has progressed to trial coal production, with coal being loaded onto barge loaders, ready for trial shipment, as part of the supply of coal under an off-take agreement for the first 25,000 tonnes of coal.



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

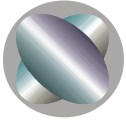


Figure 1: Coalworks Limited – location of projects.

Ferndale EL 7430 (Coalworks 92.5%, coal exploration)

Coalworks' subsidiary Loyal Coal has completed Phase 1 drilling at Ferndale during this quarter (Figure 2). The Phase 1 drilling program comprised 7 drill holes, concentrating mainly in the north of the tenement. The results from the final Phase 1 hole FD007, completed during the quarter, are presented in Table 1. An aerial survey has been conducted by Geospectrum to provide detailed topographic data, which is required for the JORC compliant Resource assessment. As soon as the topographic data is available, the JORC resource assessment for Ferndale can be undertaken, and it is expected that this will be completed by the end of the 3rd Quarter.

Coal cores in the Wittingham Coal Measures were tested for gas content and proximate analysis, and will be composited in potential working sections and reanalysed, to validate the



theoretical composited results. Ply by ply coal quality analysis results have been received, and when all final results are available, the geological model will be updated and any resources present shall be estimated.

Boardwalk Ferndale Pty Ltd have commenced a Phase 2 drilling program comprising 9 fully cored holes situated in the northern, central and southern portions of the tenement. This is aimed at further delineating the Newcastle and Wittingham coal measures in order to identify coal resources. Two drilling rigs are on site, with FD008 completed. Preliminary seam results from this hole will be presented when available. FD009 and FD010 are in progress (Figure 2).

Coalworks' current Exploration Target at Ferndale is 350 to 530 Mt 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.

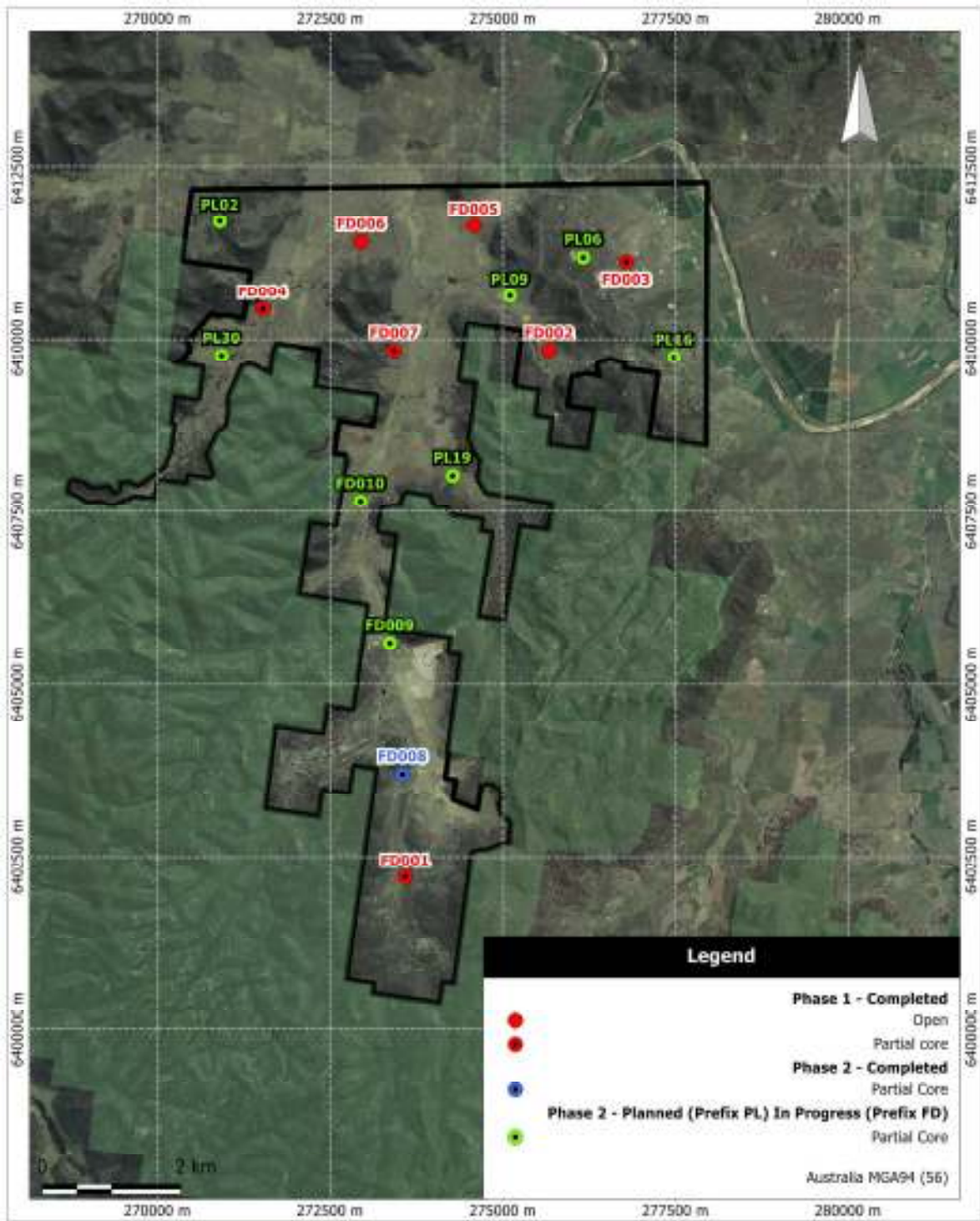
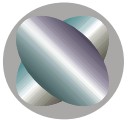
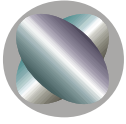
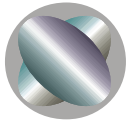


Figure 2: EL 7430 Ferndale - Completed Phase 1 and 2 drillholes (Prefixed FD) and planned Phase 2 drillholes (Prefixed PL)



| | Coal Seam (correlations tentative only) | FD007 (partly cored) | | |
|--------------------------|---|--------------------------|--------|---|
| | | From (m) | To (m) | Geological Section Thickness (m) |
| Newcastle Coal Measures | Fassifern | 18.96 | 20.15 | 1.19 |
| | Upper Pilot | 20.70 | 22.00 | 1.30 |
| | Hartley Hill (Upper Split) | 77.46 | 77.84 | 0.38 |
| | Hartley Hill (Lower Split) | 79.42 | 81.30 | 1.88 |
| | Australasian | 108.15 | 108.5 | 0.35 |
| | Montrose | 109.54 | 110.95 | 1.41 |
| | Wave Hill | 111.67 | 114.95 | 3.28 |
| | Fern Valley (Upper Split) | 130.78 | 131.20 | 0.42 |
| | Fern Valley (Lower Split) | 131.99 | 133.05 | 1.06 |
| | Victoria Tunnel | 133.65 | 135.99 | 2.34 |
| | Nobbys | 160.53 | 161.46 | 0.93 |
| | Dudley | 161.55 | 162.22 | 0.67 |
| | Yard | 172.03 | 172.59 | 0.56 |
| | Wittingham Coal Measures | Whybrow (Upper Split) | 244.51 | 246.2 |
| Whybrow (Lower Split) | | 247.8 | 249.1 | 1.30 |
| Redbank Creek | | 261.82 | 264.54 | 2.72 |
| Wambo | | 290.27 | 291.45 | 1.18 |
| Wambo Lower | | 297.5 | 297.86 | 0.36 |
| Whynot | | 315.78 | 317.82 | 2.04 |
| Whynot Lower | | - | - | - |
| Blakefield | | 379.49 | 380.58 | 1.09 |
| Blakefield Lower | 384.02 | 384.34 | 0.32 | |
| End of hole 390.99m | | | | |

Table 1: Geophysically corrected seam summary for FD007 (NB: Seam from/to depths are based upon geological intervals, with the identification of potential working sections based upon quality data, presented in Tables 2 and 3. The seams of the Newcastle Coal Measures generally contain stone bands, some of which may be removed by selective mining).



Provisional coal analysis results received for the Newcastle Coal Measures in holes FD001, FD003, FD004 and FD007 and potential working sections are presented below in Table 2.

Table 2: Coal analysis results for potential working sections in the Newcastle Coal Measures seams in FD001, FD003, FD004 and FD007.

| Hole Name | Seam (correlation tentative) | Depth From (m) | Depth to (m) | Potential Working Section Thickness (m) | True Relative Density (ad) | Moisture (%ad) | Raw Ash (%ad) | Volatile Matter (%ad) | Fixed Carbon (%ad) | Total Sulphur (%ad) | Calorific value (kcal/kg, ad) | CSN on ply basis |
|-----------|---|----------------|--------------|---|----------------------------|----------------|---------------|-----------------------|--------------------|---------------------|-------------------------------|------------------|
| FD001 | Hartley Hill (upper split) ¹ | 9.87 | 10.60 | 0.73 | 1.51 | 23.1 | 23.8 | 22.9 | 30.1 | 0.25 | 3390 | 0, 1 |
| FD003 | Hartley Hill (lower split) | 61.79 | 63.03 | 1.24 | 1.50 | 6.1 | 19.9 | 29.3 | 44.8 | 0.46 | 5903 | 1, 2, 4 |
| | Montrose (upper split) | 96.19 | 97.09 | 0.90 | 1.68 | 4.8 | 39.0 | 21.9 | 34.3 | 0.28 | 4402 | ½ |
| | Montrose (lower split) | 97.22 | 98.07 | 0.85 | 1.70 | 5.1 | 37.5 | 21.4 | 35.9 | 0.22 | 4411 | ½ |
| | Wave Hill (upper split) | 98.99 | 100.50 | 1.51 | 1.51 | 6.8 | 23.7 | 27.7 | 41.9 | 0.34 | 5501 | 1, 1½, 3 |
| | Nobbys + Dudley | 138.22 | 139.37 | 1.15 | 1.62 | 6.9 | 26.6 | 27.1 | 39.4 | 0.34 | 5597 | 1 |
| FD004 | Great Northern | 27.31 | 29.52 | 2.21 | 1.46 | 5.6 | 19.6 | 28.4 | 46.5 | 0.63 | 4253 | ½, 1 |
| | Fassifern | 46.16 | 47.30 | 1.14 | 1.45 | 5.8 | 14.0 | 28.4 | 51.7 | 0.44 | 6337 | ½, 1 |
| | Upper Pilot | 48.68 | 50.16 | 1.48 | 1.50 | 5.6 | 21.4 | 27.8 | 45.2 | 0.35 | 5679 | 1, 1½ |
| | Hartley Hill (middle + lower splits) | 109.42 | 111.53 | 2.11 | 1.61 | 4.6 | 37.9 | 24.9 | 32.5 | 0.49 | 4529 | 0, 1, 4, 2 |
| FD007 | Fassifern | 19.56 | 19.95 | 0.39 | 1.58 | 4.5 | 34.5 | 24.6 | 36.4 | 0.39 | 4853 | 1 |
| | Hartley Hill (middle + lower splits) | 79.70 | 81.30 | 1.60 | 1.48 | 5.2 | 21.3 | 31.2 | 42.3 | 0.51 | 5942 | 1, 0, 2, 3½ |
| | Wave Hill | 111.85 | 114.97 | 3.12 | 1.60 | 6.1 | 31.7 | 36.4 | 35.9 | 0.40 | 4841 | 0, 0, 0, 0 |

Notes:

¹Majority of seam oxidised.

ad = air dried basis.

Potential Working Section – coal interval containing a theoretical composited raw ash <40% (ad), and 0.3m thickness for Great Northern, Fassifern and Upper Pilot seams, and 1.2m thickness for all other seams.

All quality values stated are theoretical composites calculated from individual ply results.

All from/to depths have been geophysically corrected.

Provisional coal analysis results received to date for the Wittingham Coal Measures in holes FD001, FD003, FD004 and FD007 are presented in Table 3 below. Potential underground working sections (PWS) have been identified, based on a minimum 1.2m thickness and maximum 40% raw ash content (air dried basis). In the four Phase 1 cored holes, 12 of the Wittingham Coal Measures seams or major seam splits, between the Redbank Creek Seam and the Bayswater Seam, meet these criteria. Furthermore, several of these exceed 1.5m in thickness, indicating good underground mining potential. The potential working sections presented in Table 3 are typically low sulphur, medium to high volatile coal ranging from 1.2 to 4.4m thick and 200 to 610m depth of cover.

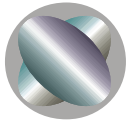


Table 3: Coal analysis results for potential working sections in Wittingham Coal Measures seams in FD001, FD003, FD004 and FD007.

| Hole Name | Seam (correlations tentative) | Depth (corrected) From (m) | Depth (corrected) To (m) | Potential Working Section Thickness (m) | True Relative Density (ad) | Total Moisture (%ad) | Raw Ash (%ad) | Volatile Matter (%ad) | Fixed Carbon (%ad) | Total Sulphur (%ad) |
|-----------------------|-------------------------------|----------------------------|--------------------------|---|----------------------------|----------------------|---------------|-----------------------|--------------------|---------------------|
| FD001 | Redbank Creek | 201.64 | 203.40 | 1.76 | 1.59 | 4.4 | 34.8 | 25.8 | 30.8 | 0.29 |
| | Wambo | 242.41 | 243.79 | 1.38 | 1.44 | 3.6 | 15.9 | 31.8 | 45.2 | 0.46 |
| | Whynot (upper split) | 266.62 | 268.02 | 1.40 | 1.60 | 3.7 | 34.3 | 26.0 | 34.2 | 0.33 |
| FD003 | Whybrow (upper split) | 231.18 | 233.00 | 1.82 | 1.58 | 5.9 | 34.4 | 24.9 | 31.4 | 0.37 |
| | Redbank Creek | 250.16 | 251.79 | 1.63 | 1.39 | 5.1 | 15.0 | 29.6 | 45.8 | 0.47 |
| | Wambo | 295.57 | 298.06 | 2.49 | 1.50 | 2.5 | 22.6 | 30.5 | 41.8 | 0.42 |
| | Whynot | 309.57 | 311.64 | 2.07 | 1.41 | 4.0 | 16.3 | 30.1 | 45.7 | 0.47 |
| | Blakefield | 356.8 | 359.39 | 2.59 | 1.43 | 5.6 | 19.6 | 26.7 | 42.8 | 0.36 |
| | Arrowfield | 456.45 | 458.62 | 2.17 | 1.65 | 3.0 | 38.7 | 23.3 | 32.9 | NA |
| | Piercefield (lower-1 split) | 508.07 | 510.09 | 2.02 | 1.39 | 3.4 | 13.4 | 21.7 | 58.1 | 0.44 |
| | Piercefield (lower-2 split) | 510.46 | 511.85 | 1.39 | 1.45 | 2.9 | 18.1 | 25.1 | 51.3 | 0.41 |
| | Broonie (upper split) | 542.89 | 545.22 | 2.33 | 1.43 | 2.8 | 18.0 | 28.3 | 48.9 | 0.39 |
| Broonie (lower split) | 573.050 | 574.35 | 1.30 | 1.38 | 2.5 | 11.6 | 31.0 | 53.1 | 0.46 | |
| FD004 | Wambo | 322.22 | 323.42 | 1.20 | 1.60 | 3.0 | 34.4 | 27.1 | 33.8 | NA |
| | Whybrow (upper split) | 272.13 | 274.15 | 2.02 | 1.55 | 4.5 | 33.7 | 24.3 | 33.8 | 0.37 |
| | Whynot | 345.62 | 347.38 | 1.76 | 1.52 | 2.4 | 28.9 | 28.0 | 39.0 | 1.19 |
| | Bowfield | 490.960 | 492.580 | 1.62 | 1.58 | 2.0 | 32.5 | 26.6 | 38.1 | 0.42 |
| | Piercefield (lower split) | 537.48 | 538.96 | 1.48 | 1.53 | 2.5 | 28.1 | 25.1 | 42.0 | 0.38 |
| | Broonie (middle split) | 583.12 | 584.65 | 1.53 | 1.50 | 2.2 | 30.9 | 25.0 | 39.7 | 0.42 |
| | Bayswater (upper split) | 610.98 | 615.37 | 4.39 | 1.45 | 2.2 | 17.1 | 26.7 | 52.0 | 0.47 |
| FD007 | Redbank Creek | 262.76 | 264.54 | 1.78 | 1.55 | 4.5 | 29.9 | 27.0 | 37.8 | 0.36 |
| | Wambo | 290.25 | 291.45 | 1.20 | 1.55 | 2.8 | 28.0 | 29.8 | 37.9 | NA |
| | Whynot | 315.78 | 317.40 | 1.62 | 2.54 | 2.2 | 32.2 | 28.1 | 36.4 | 0.36 |

Notes:

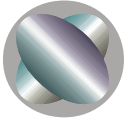
ad = air dried basis

NA = Not available

Potential Working Section – interval containing a minimum thickness of 1.2m and maximum theoretical composited raw ash <40% (ad).

All depths have been geophysically corrected.

All quality values stated are theoretical composites calculated from individual ply results.



Vickery South EL 7407

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

Stages 2 and 3 exploration drilling commenced on 5 January 2011 and was completed on 19th March 2011. This comprised 61 drillholes (totalling approximately 8,000m), of which 20 were partly cored (totalling approximately 3,000m) and the remainder open holed (Figure 3), and was aimed at upgrading the current JORC classified resources from Inferred to Measured status. Coal core samples were sent to SGS Laboratory in Muswellbrook NSW, for analysis. Preliminary results from several of these holes have been received, and assessment of these is underway. Results will be reported upon completion of the assessment.

Geological modelling has been ongoing during drilling operations, with the model being upgraded as new drilling data was acquired. As a result, a 20% increase in Inferred Resources was identified at Vickery South, from 42Mt to 51Mt of bituminous coal (ASX announcement 23 February 2011).

The resource work is on schedule for establishing Measured Resources for the Vickery South BFS to be completed in early 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 end of July 2011.

One of the two planned large diameter partially cored holes aimed at obtaining samples for coal bulk sampling testwork, have been completed. The remaining large diameter hole is scheduled to commence in early May 2011.

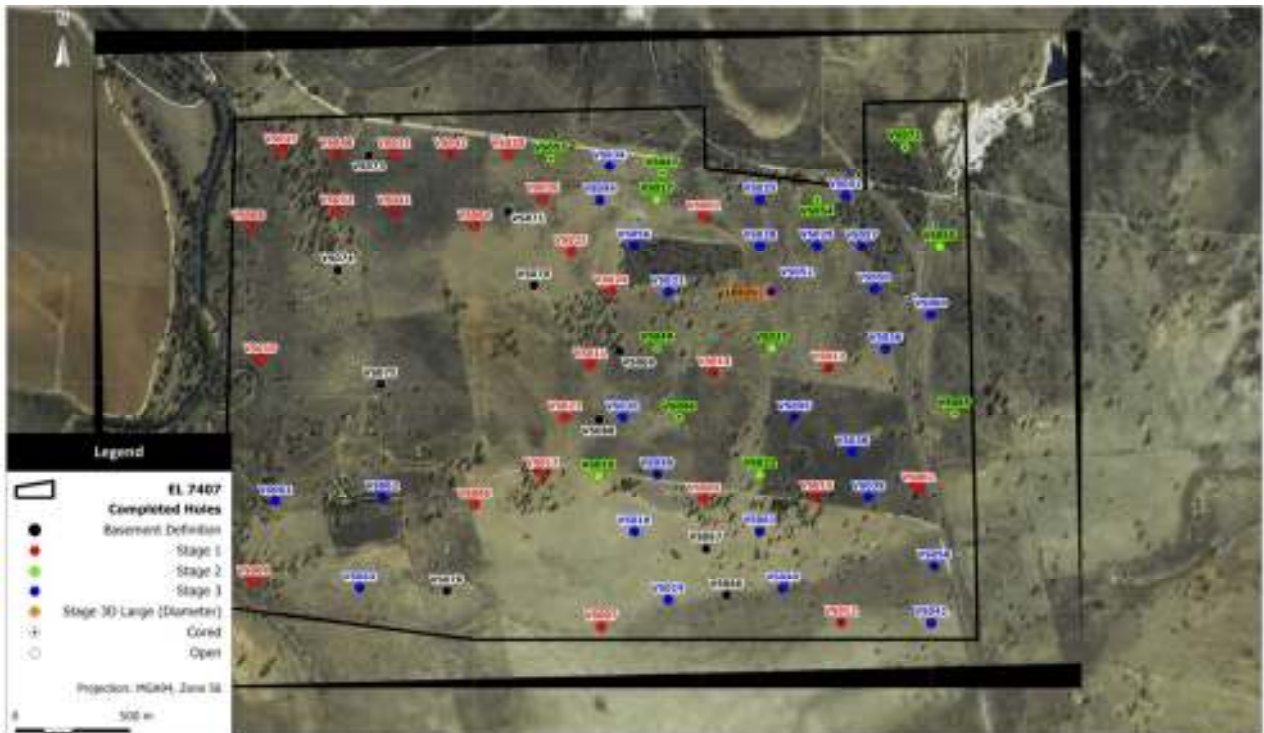
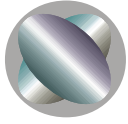


Figure 3: EL 7407 Vickery South – drillhole locations, Stage 1, 2 and 3 drilling programs.



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 prefeasibility studies. This is part of a preliminary mining study which commenced in September 2009, by Minarco-Mineconsult who have been engaged to review all geological data and conduct the mining 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 prefeasibility studies are aimed at investigating the potential for a CTL plant design and construction to process the Lanes Shaft Seam at Oaklands by open cut mining methods, with results partially completed.

Work planned for May to August 2011 will include continuation of prefeasibility studies and mine planning.

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

Coalworks' wholly owned subsidiary Orpheus Energy Group Pty Ltd's joint venture at the B26 Coal Project in Indonesia, has progressed its trial coal production, with coal now being loaded onto barge loaders in Longbok River, East Kalimantan, ready for trial shipment.

The B26 Coal Project is located approximately 26km from the barge loading site. The trial shipment of coal forms part of the supply of coal under an off-take agreement for the first 25,000 tonnes of coal which has already been paid, with an advance of US\$500,000. Operations at the B26 Coal Project continue to progress on schedule, with heavy earthmoving machinery continuing to pre-strip the overburden to expose the coal, allowing trial mining. Drilling is continuing to advance the existing database and mine plans.



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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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)
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)