

**ASX RELEASE
31 JANUARY 2013**

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 DECEMBER 2012

Material events announced to the market during the quarter related to:

- An increase in the Measured Resource at the Kangwane Central Project to 200Mt providing significantly greater confidence in the resource; Completion of a Bankable Feasibility Study (“**BFS**”) on the Kangwane Central Project with pertinent highlights being:
 - Project NPV of US\$148m at a discount rate of 8%, based on 100% equity (after tax) and nominal IRR of 41.0% (27.2% real)
 - JORC-compliant Reserves of 19.3 Mt, including Proven Reserves of 17.4 Mt on an initial Project life of 20 years
 - Start-up capex of US\$67.6m for the opencast with additional capex required in years 6-7 and 12 of US\$70.8m to establish the underground mines
 - The on-mine ROM total operating cash costs will average US\$42.39 per tonne for the opencast and US\$30.24 per tonne for underground
- Repayment date of Bridging facility extended to the end of March 2013

KANGWANE CENTRAL PROJECT

The Kangwane Central Project is located in an area that is well serviced with key infrastructure and is approximately 100km in a straight line from the port of Maputo which will be used to export Kangwane Central Project’s product for the global steel and associated industries. The Kangwane Central Project covers a Prospecting Right Area (“**PR Area**”) of 7204 hectares with the anthracite field running centrally through the area in a north-south orientation.

The PR Area has been divided into two distinct areas, the Mining Right Area (“**MR Area**”) in the southern block, and the Life of Mine Area (“**LOM Area**”) in the northern block.

Corporate Office:

Level 8, 225 St Georges Terrace, Perth 6000, Western Australia
PO Box 7653, Cloisters Square, Perth 6850, Western Australia

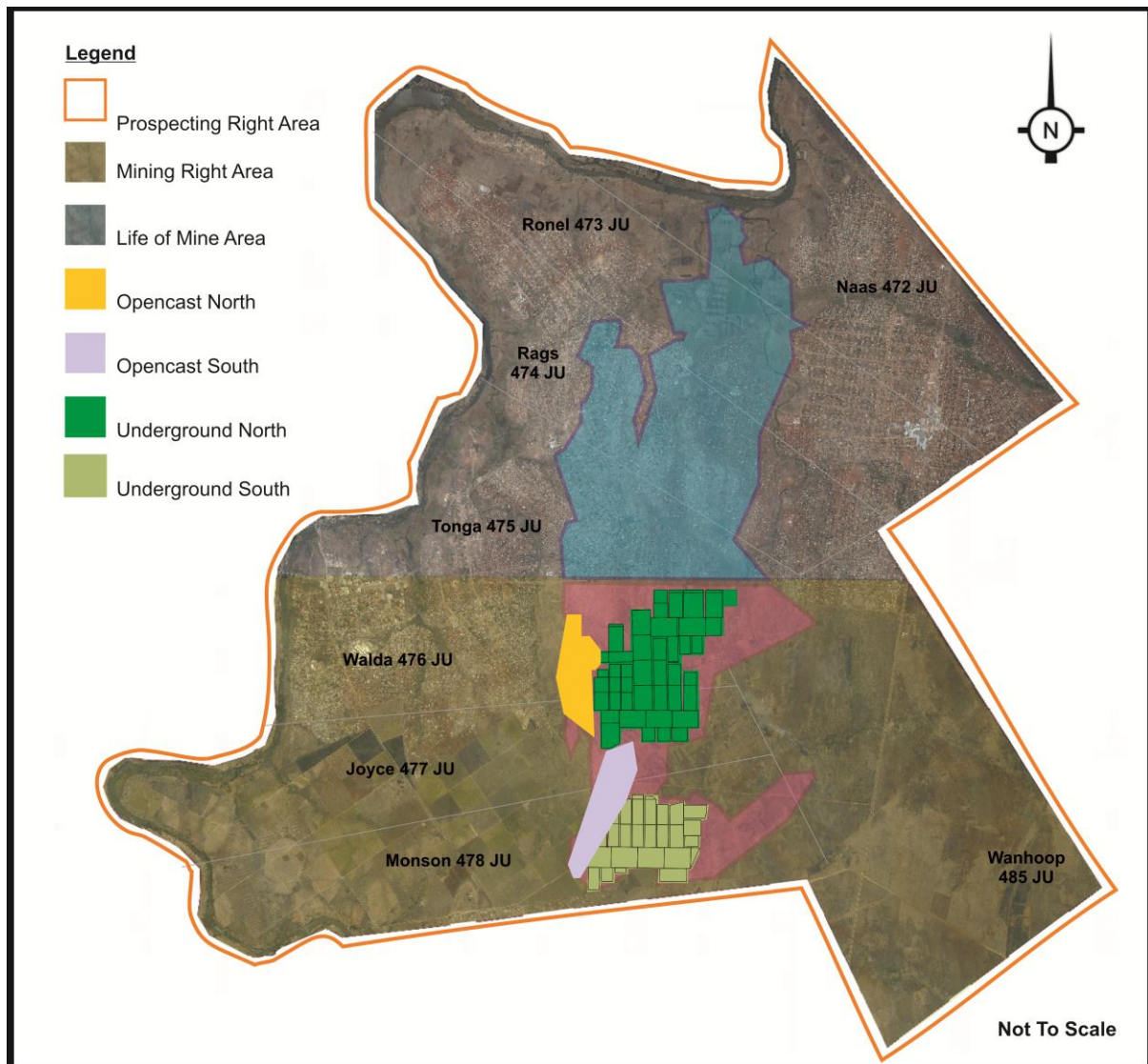
Tel: +61 8 9486 4036
Fax: +61 8 9486 4799

Email: info@zylimited.com.au
Web: www.zylimited.com.au



The MR Area in the south has been the focus of the BFS and where the opencast and underground mines have been scheduled for the initial 20 years of mining as shown in Figure 1. The LOM Area in the north represents the future potential for the project where resources may be exploitable as an underground operation, and can be considered either for an expansion or extending the life of the Project.

Figure 1: The Kangwane Central Project Area



Resource and Reserve Statement – November 2012

The Kangwane Central Project has JORC-compliant resources of 200 Mt, all in the Measured Category of which less than half will be exploited during the initial 20 years of mining. The total resources of the Kangwane Central Project are split roughly equally across the MR Area and the LOM Area (**Table 1**).

Table 1: JORC-Compliant Resource Statement – Kangwane Central Project

SEAM	MR Area			LOM Area		
	GTIS	TTIS	Classification	GTIS	TTIS	Classification
S7	221,482	166,112	Measured	540,898	405,674	Measured
S6	2,461,505	1,846,129	Measured	2,709,735	2,032,301	Measured
S5	6,702,350	5,026,763	Measured	5,512,750	4,134,563	Measured
S4U	7,559,860	5,669,895	Measured	6,143,880	4,607,910	Measured
S4L	13,738,900	10,304,175	Measured	21,290,700	15,968,025	Measured
S3	5,292,310	3,969,233	Measured	8,186,190	6,139,643	Measured
S2	56,825,740	42,619,305	Measured	56,290,240	42,217,680	Measured
S1	1,486,490	1,114,868	Measured	5,084,200	3,813,150	Measured
TOTAL	94,288,637	70,716,478		105,758,593	79,318,945	

The Resource to Reserve conversion has been completed through the detailed mine planning and scheduling over the MR Area. The reserves are JORC-compliant and 90% are in the Proven Reserve category (**Table 2**).

Table 2: JORC-Compliant Reserve Statement – Mining Rights Area Only

Block Name	Seam Name	GTIS	ROM Tonnes	Proven Reserves	Probable Reserves
Opencast South	S4U	944,928	735,067	735,067	-
Opencast South	S3	677,769	281,876	281,876	-
Opencast South	S2	5,716,248	4,017,834	4,017,834	-
Total Opencast South			5,034,776	5,034,776	-
Opencast North	S4U	137,989	107,343	55,640	51,702
Opencast North	S3	151,744	94,484	44,596	49,888
Opencast North	S2	5,372,505	3,842,807	2,553,695	1,289,112
Total Opencast North			4,044,634	2,653,932	1,390,702
Total Opencast		-	9,079,410	7,688,708	1,390,702
Underground South	S2	16,465,315	3,534,566	3,534,566	-
Underground North		29,271,672	6,720,825	6,137,523	583,302
Total Underground			10,255,391	9,672,089	583,302
Total Mining Rights Area			19,334,801	17,360,797	1,974,004

Note: The Measured Resources are inclusive of those resources modified to produce the Ore Reserves

Mine Design

The mine has been designed to maximise extraction of the Number 2 seam which yields the highest volume of saleable anthracite. Various mine sequencing scenarios, utilising the XPAC mine scheduling software, were considered to ensure the most optimal sizing and depletion model for the reserves in the MR Area. The reserve depletion model has targeted the high quality-high yield area in the south portion of the MR Area with the mining sequence gradually moving in a northerly direction.

Opencast mining will be a standard truck and shovel operation whilst the underground operations will be bord and pillar mining using continuous miners and matched shuttle cars. The contractor-operated opencast mine model, in which all capital equipment and staff are supplied by the contractor, with an owner-operated underground mine, returned the highest financial return for the project and it has been selected as the preferred operating model. The coal processing plant will be an owner operated plant.

Coal Processing Plant

The 200 tonnes per hour coal handling and preparation plant (“CHPP”) designed to handle raw coal, coal washing, and product and discard materials over the life of the project from multiple coal seams, taking into consideration both opencast and underground ROM feed up to 1.2 Mtpa. The plant design was developed to minimise the amount of mechanical equipment required, without compromising the efficiency of the process. Process flow sheet software (LIMN) has been used to run simulations to determine plant efficiencies and predict plant yields targeting an unsized 16% ash product. The key plant operating parameters are shown in **Table 3**.

Table 3: Plant Design Parameters

Design Parameter	Value
Raw coal feed rate	1 200 000 tpa
Plant design feed rate	200 tph
Plant availability	92%
Number of modules	1
Planned maintenance	400 hours pa
Product size	Maximum 50mm
Target product quality	16% ash

Infrastructure

The project infrastructure (**Figure 4**) has been designed to service the requirements of the opencast and mining operations for the 20 year life of the project. On mine infrastructure has been strategically laid out to enhance efficiencies for creating effective production output. Inherent flexibility in the design will allow for future variations in the mine plans as well as production expansions, should market conditions warrant it.

Figure 4: Infrastructure Layout for the Kangwane Central Project



Environmental and Permitting

Good progress on work in terms of a scoping study to support the application has been ongoing and the final Environmental Impact Assessment and Environmental Management Plan (“EIA/EMP”) was submitted to the Department of Mineral Resources (“DMR”) at the end of November 2012. Further applications in terms of water use and waste management are being prepared and will be submitted as soon as possible.

A Social and Labour Plan (“SLP”) was submitted to the DMR in September 2010, and although no revisions have been requested, a revised SLP will be submitted reflecting the current mining plans and any shortfalls identified during the feasibility study.

Logistics

Initially road hauling of product to the port of Maputo in Mozambique was considered the most practical solution. The key advantages are the proximity to Maputo by road, available capacity at the Maputo Main Port (“MMP”) and the ability to handle both sized and unsized products.

The Company, on behalf of Main Street, has been engaging with a port operator during 2012 to secure throughput capacity for the Kangwane Central Project, and has received a detailed proposal to provide capacity for the majority of the initial export volumes. The proposal includes a provision for an increase in capacity to cater for any expansion to the project output, as well as the delivery of product to the port by rail.

Marketing and Sales

ZYL has undertaken extensive analysis of the current and future anthracite price regimes in the international and domestic market utilising information from amongst others Resource Net, a leading international market authority.

The Kangwane Central Project Anthracite price forecast is based on the Resource Net price forecast for a 10% ash product adjusted for the relative quality of product (higher ash, lower fixed carbon), transport costs and “out of spec” product.

This pricing methodology forecasts a price of US\$136 in 2014, which has accordingly been set as the base price in the Kangwane Central Project financial evaluation. Subsequent to 2015, prices have been escalated at the current annual US rate of inflation of 3% per annum (Figure 7). Using this methodology, the pricing for Kangwane Central Project anthracite is anticipated to be closely linked to that of a similar South African product reporting prices for similar 16-17% ash anthracite in the export market.

Economic Evaluation

Capital Expenditure

The Kangwane Central Project start-up capital is US\$67.6 million (“**Initial Capital**”) to commence production, with further capital of US\$70.8 million (“**Underground Capital**”) required for underground operation start-ups in years 5, 6 and 11. The capital costs for Engineering, Procurement, and Construction Management (“**EPCM**”) have been estimated at US\$12.5 million whilst the contingencies amount to US\$13.7 million. A more detailed breakdown per area is set out in **Table 4**.

The level of accuracy of the capital estimates is plus 10% and minus 15%. A detailed contingency assessment was conducted by area and by discipline for the whole project scope, with each being assessed critically to determine appropriate specific contingencies. The resultant contingency allowance is calculated at 9.92% of the total capital cost.

Table 4: Capital Expenditure Estimates (US\$)

Area	Initial Capital	Underground Capital	Total Project Capital
Off mine Infrastructure	352 518	-	352 518
On Mine Infrastructure	29 153 722	3 887 060	33 040 782
Bulk Services	172 280	-	172 280
Process Plant	8 850 892	-	8 850 892
Mining - Surface	12 453 136	-	-
Mining - Underground	-	54 433 210	66 886 345
Project In directs	2 849 640	-	2 849 640
Sub-total	53 832 188	58 320 269	112 152 458
EPCM Costs	7 277 032	5 220 809	12 497 841
Contingency	6 455 050	7 270 216	13 725 265
Total	67 564 270	70 811 294	138 375 564

Operating cost

The on-mine ROM cash operating costs for opencast production will average \$42.39 per tonne and underground production will average \$30.24 per tonne as set out in **Table 5**.

The operating costs on a Free-on-Mine (“**FOM**”) basis for the life of mine average US\$71.12 per opencast sales tonne and US\$56.52 per underground sales tonne. After including transport and loading costs of US\$15.00 per sales tonne and all inclusive port costs of \$12.50 per sales tonne, this equates to an average Free-on-Board (“**FOB**”) cost of US\$98.61 per opencast sales tonne and US\$84.01 per underground sales tonne over the life of mine.

Table 5: Operating Costs Estimates

Description	Opencast operating cost - \$/tonne	Underground operating cost - \$/tonne
Opencast Mining	33.25	0.00
Underground Mining	0.00	20.46
Process Plant, Stockpile and Discard Handling	3.80	3.80
Electricity	0.84	1.47
On Mine Services	4.51	4.51
Total FOM Cost per ROM Tonne	42.39	30.24
Average LOM Yield	0.60	0.54
Total FOM Cost per Sales Tonne	71.12	56.52
Transport Costs	14.99	14.99
Port Costs	12.50	12.50
Total FOB Cost per Sales Tonne	98.61	84.01

Project Financial Evaluation

Project economics were evaluated using a discounted cash flow analysis, with production estimates, capital costs, future revenues and operating costs projected into the future to yield annual net cash flows and ultimately a Net Present Value (**Table 6**). The cash flows calculated are after tax and were discounted at 8% to reflect the time value of money and risk factors. An Internal Rate of Return (“**IRR**”) and payback period for the project were also calculated.

Table 6: Kangwane Central Project Financial Highlights

Parameter	October 2012 Money Terms (Real) \$'000
Gross Project Revenue	1 475 273
Net Operating Cash Flow	754 079
Initial Capital (Years 1 & 2 including contingencies & EPCM)	67 564
Underground Capital (Years 6,7 & 12, including contingencies and EPCM)	70 811
Average ROM Production*	1.022 mtpa
Plant throughput capacity	200 tonnes per hour
Average Saleable Product Volume*	574 ktpa
Payback period (Initial capital, Years)	2.90

*Ramp-up and ramp-down period excluded

Financial Evaluation Results	\$'000
Project NPV (8% nominal discount rate, 100% equity, after tax)	147 823
Nominal Project IRR (100% equity, after tax)	41.0%

A sensitivity analysis on the four key parameters – capital expenditure, operating costs, yield and the sales price – was undertaken in terms of the IRR of the project. The results are shown in **Table 7**.

Table 7: Financial Indicators – Sensitivity Analysis

Nominal Internal Rate of Return							
Percentage Change	15%	10%	5%	0%	-5%	-10%	-15%
Capital Expenditure	34.4%	36.4%	38.6%	41.0%	43.5%	46.4%	49.4%
Operating Costs	24.0%	29.7%	35.4%	41.0%	46.7%	52.5%	58.4%
Product Yield	57.5%	52.6%	46.8%	41.0%	35.2%	29.1%	22.8%
Selling Price	65.8%	57.4%	49.1%	41.0%	32.8%	24.1%	14.7%

As can be seen the project returns are most sensitive to selling price and least sensitive to capital expenditure.

CORPORATE AND PROJECT FUNDING

The Company has successfully extended the repayment date of the \$2,000,000 bridging facility to 28 March 2013. The extension to the facility enables ZYL to continue discussions with financiers, offtakers, strategic partners and logistics service providers for the capitalisation of the Balance Sheet and the development of its Kangwane Central Project.

The bridging facility is a separate component of the funding package announced on 10th September 2012. The facility was to be settled from the funds raised in the \$18 million Convertible Note facility. The terms and conditions of the Convertible Note facility require renegotiation as a consequence of the Companies position in relation to Mbila Resources (Pty) Ltd. These discussions are ongoing and ZYL will continue to update shareholders on the status of discussions with the various parties.

The Company has, in so far as possible, sought to reduce costs and limit its obligations over the past quarter and will continue to do so whilst a suitable funding solution is finalised to ensure its going concern.

MBILA PROJECT

The Company announced on 5 November 2012 that a detailed technical study undertaken by RSV Enco, as part of the BFS, has highlighted a lower than expected conversion from resources to reserves within the Badger Study Area. The subsequent technical workshop confirmed the Company's announcement on 5 November 2012.

Further to this the Company and the subscribers contend that the vendors failed to timeously fulfill a condition precedent contained in the Acquisition Agreement and as a consequence of this condition precedent not having been fulfilled, the Acquisition Agreement has lapsed and has become null and void *ab initio*.

The Company and the subscribers under the agreement in terms of which they were to acquire shares in Mbila Resources (Pty) Ltd have informed the vendors of the Mbila project that they do not consider themselves bound by the agreement and that consequently no further payments in terms of the agreement are to be made. The subscribers have tendered return of the Mbila shares and have demanded the repayment of all amounts paid to date for such shares.

The vendors have indicated that they do not accept the position adopted by the Company and subscribers. The Company is reviewing the contents of the vendors' response and will consider its legal position in dealing with the response, and will provide further updates in due course.

Shareholders of the Company are advised that the stance adopted by the vendors may result in a dispute resolution process being followed, and that litigation may ensue.

YORK ACQUISITION UPDATE

The Company believes that there are still merits in concluding the York transaction notwithstanding the stance adopted by the Company and the subscribers relative to the Mbila agreement. York Energy has other projects that are complimentary to the Company's Kangwane suite of assets. The York transaction is likely to be renegotiated with a significantly reduced transaction value. The Company will provide further updates to shareholders in due course.

ENDS

Contact:

Ian Benning, CEO, ZYL LIMITED

T: +27 (0) 87 350 2751

M: +27 (0) 10 591 0634

E: ian.benning@zylimited.co.za

Head Office - Perth Australia

T: +61 (0) 8 9486 4036

E: admin@zylimited.com.au

About ZYL Limited

ZYL Limited is listed on the Australian Securities Exchange (ASX) and aims to become one of the world's leading anthracite coal producers. The mission of ZYL is to develop high-margin metallurgical coal deposits for domestic and export markets. Flagship project is Kangwane Central Projects in South Africa, located close to rail, port, power and water infrastructure.

Important information

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Competent Person Statement

Information in this report that relates to exploration results and minerals resources is based on information compiled by Mr Peet Meyer and Mr Ian MacFarlane, who are consultants to the company. Mr Meyer is a member of the Geological Society of South Africa, a Recognised Overseas Professional Organisation. Mr MacFarlane is a Fellow of South African Institute of Mining and Metallurgy, a Recognised Overseas Professional Organisation. Messrs Meyer and MacFarlane have sufficient experience which is relevant to the styles of mineralisation and types of deposits under consideration and to the activities they are undertaking to qualify as a Competent Persons as defined in the 2004 Edition of the 'Australian Code of Reporting of Exploration, Mineral Resources and Ore Reserves'. Messrs Meyer and MacFarlane consent to the inclusion in this report of the matters based on his information in the form and context in which it appears.