



20<sup>th</sup> July 2012

Dear Shareholder and fellow investor,

On behalf of the Board, I'd like to take the opportunity to thank you for your support of the Company and to reiterate the exciting potential that lies ahead for ZYL as the Company moves towards its initial production.

Given my recent appointment as Non-Executive Chairman together with the number of positive developments at a project level, this letter is intended to provide an update in advance of what we anticipate will be a busy period of exciting news-flow for the Company. The update is not intended to be exhaustive and will be complemented by the regular release of corporate and project specific announcements in the coming months.

### Company Snapshot

ZYL has a suite of South African anthracite coal assets in various permitting stages. Its two principal assets, with near term production potential, are the Mbila Project (130km by road from Richards Bay) and the Kangwane Project, consisting of Kangwane Central and Kangwane South (135km by road from the port of Maputo). ZYL is focused on progressing these two assets through the various phases of project development and eventually to production.

Over the coming years, these two company making projects will allow ZYL to meet both the domestic and export markets demand for high quality anthracite which is a cost effective alternative to supply-constrained and more expensive metallurgical coal, and its final processed product, metallurgical coke. With the supply of high quality anthracite continuing to decline in South Africa, and the longer term impact of increasing export restrictions of anthracite from Vietnam, ZYL will be ideally positioned to provide a broad range of products from its projects.

The Mbila and Kangwane assets provide ZYL with a strategic holding in the niche global anthracite market, and the company will be uniquely positioned in the specialised metallurgical coal space.

### Board

Over the past 12 months, the Board determined that the most effective way to transition from an anthracite explorer to producer was to have the operational activities managed from South Africa; subsequently this has led to changing responsibilities at both the Board and management levels. In this regard, I would like to thank Mr Tarratt for assisting in this transition, and fulfilling the role of interim Executive Chairman over the past six months while the management team was consolidated in Johannesburg. This task has now been completed and Mr Tarratt will focus on his original Australian based, Investor Relations role moving forward. I would also like to thank Mr Lilford, who is resigning from the Board, for his efforts during the early establishment of the Company. We wish him well.

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The Johannesburg based team is led by CEO and Executive Director, Ian Benning. Ian is focused on the Company's development and overseeing the completion of the Mbila and Kangwane Central Bankable Feasibility Studies. Executive Director: Commercial, Phillipe Lalieu is responsible for ZYL's commercial portfolio including offtake EOI's, debt financing and liaison with our project partners and Mr Jan Britz, our Chief Operating Officer, is responsible for all operational aspects of the project development team.

For my part I see an exciting development pathway for ZYL over the next 24 months. The changing requirements of the board highlight the progress the Company has made to date and the advanced state of its projects. With a strong background of corporate finance and investment banking in the resource industry I was excited at the opportunity to be a part of this emerging anthracite company and hope that my knowledge and experience will contribute to the overall Board skillset and our ability to deliver shareholder returns.

### **Mbila**

In respect of the Mbila project, the technical team continues to make excellent progress with additional drilling programmes, geological and resource definition, and the updating of the original feasibility study. The confidence gained during this process has reconfirmed the outstanding quality and potential of the project. Continuous engagement with the South African mining regulators has facilitated the advancement of the permitting process, and the Company has made fantastic in-roads in establishing ZYL's profile in the project area through the commencement of the initial phase of the social and labour plan initiatives.

Further, we are excited that the recent Mbila drilling program identified significant new mineralisation and the drilling indicated the continuity of coal seams between the known S-Block and Msebe Block. This indicates the potential for continuous mineralisation, rather than separate resource blocks, as was previously envisaged.

To ensure that this information was adequately assessed and incorporated into the technical study work, a decision was made by RSV Enco (the independent project manager) and ZYL to extend the formal completion date of the BFS; pending the finalisation of resurveying of historical drill holes and the updating of the 3D resource model. While this delay is frustrating and will add approximately 3 months to the process, initial work has indicated the potential for a sizeable gross tonnes in-situ resource upgrade whilst the targeted Q4 2013 production date remains on schedule.

### **Kangwane**

Together with our partners, significant progress has been made in advancing the Kangwane Central project over the last 12 months. This asset has moved from the initial exploration phase, through the Interim Feasibility Study stage and is on track to deliver the final feasibility study and ultimately the BFS.

In May a substantial upgrade in the project's resource to 177.7 million gross tonnes in-situ was announced which has resulted in a pit optimisation study being undertaken which we aim to finalise and communicate to the market in coming weeks. The results of the third phase drilling program will be

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released in the near future and it is anticipated that a further increase in both the size and the confidence of the Kangwane Central project resource will be achieved.

The acquisition of additional projects in close proximity to Kangwane Central has given ZYL a unique strategic holding in the Southern African coal market. Specifically the Kangwane South asset was acquired by ZYL in late 2011 and the two highly complementary assets host over 250Mt of anthracite. In addition to the existing resource, Kangwane Central and South have exploration targets of 260-315Mt<sup>1</sup> and 20-100Mt<sup>1</sup> respectively. ZYL is focused upon fully utilising its unique land holding in the Kangwane coal field and is concentrated upon achieving the maximum expansion of the potential resources contained within these assets.

ZYL eagerly awaits the completion of the final feasibility study and ultimately the BFS on Kangwane Central, the company believes that this project offers excellent scope for near term production via a low cost, open pit process in the southern section of the concession.

### Offtake

In respect of product sales, we are extremely pleased to have received expressions of interest for some 4 million tonnes of anthracite annually from both Mbila and Kangwane; this is well in excess of our combined annualized production target of 2.5 million tonnes. The robust demand for ZYL products provides the opportunity for the company to evaluate expanding the planned production rates to meet excess consumer demands following completion of the BFSs. Such demand for the product provides us with the ability to fund a significant portion of the Mbila development capital via project financing, and we have shortlisted Standard Chartered Bank and Nedbank as our preferred project funding partners, with finalisation of this process upon the completion of the BFS.

### Corporate Developments

ZYL has received multiple expressions of interest from third parties who have indicated a desire to secure off-take, provide debt finance, project funding and infrastructure solutions; these discussions are ongoing and their progression and subsequent outcome is largely dependent on the completion of the Bankable Feasibility Studies. The company's focus remains on developing and advancing our projects to production; we will consider and evaluate all available options that will lead to achieving this outcome.

I understand shareholders frustrations regarding the lack of news on this front, however with BFS completion dates imminent and positive developments changing our understanding with respect to resource sizes, geological and resource models, we felt we could not achieve the optimal result for shareholders until the full potential of the projects were understood. We see the completion of the two BFS documents as a key milestone and catalyst towards finalising the development of both projects.

The Company continues to work towards the completion of the York Energy N.L. (York) acquisition and we hope to distribute appropriate documentation to shareholders in the coming month, enabling you to make an informed decision regarding the transaction. The York acquisition will consolidate and entrench ZYL's strategic position in the anthracite market, increasing ZYL's rights, interest and eventual

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control of the Mbila project to 74%, as well as acquiring two additional South African-based anthracite projects being:

- the rights to earn a 60% interest in the Marble Project strategically located 30 km west of Mbila, and
- the rights to earn a 70% interest in the Kangwane North Project, located 30km north of ZYL's Kangwane Central project.

### Summary

We believe ZYL will be a significant force in the anthracite market of the metallurgical coal sector in the coming years, able to supply both South Africa's domestic and the global export anthracite markets; via multiple port and transport solutions and with a broad product range to meet the needs of a wider range of potential off-take partners.

We look forward to keeping you informed as we continue to systematically advance development of the Mbila and Kangwane projects.

Yours sincerely

Glenn Whiddon

**NON-EXECUTIVE CHAIRMAN**

**ZYL Limited**

<sup>1</sup> The potential quantity and grade of the above Exploration Target is conceptual in nature and there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource

#### Competent person statement

Information in this presentation that relates to exploration results, minerals resources or ore reserves is based on information compiled by Messrs van Wyk and Meyer and Mrs de Klerk who are consultants to the Company. Mr van Wyk is a member and fellow of the Geological Society of South Africa and South African Council for Natural Scientific Professions, a Recognised Overseas Professional Organisation. Mr Meyer is a member of the Geological Society of South Africa. Mrs de Klerk is a member and on the council of the Geological Society of South Africa. Messrs van Wyk and Meyer and Mrs de Klerk 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 Competent Persons as defined in the 2004 Edition of the 'Australian Code of Reporting of Exploration, Mineral Resources and Ore Reserves'. Messrs van Wyk and Meyer and Mrs de Klerk consent to the inclusion in this Notice of the matters based on their information in the form and context in which it appears.

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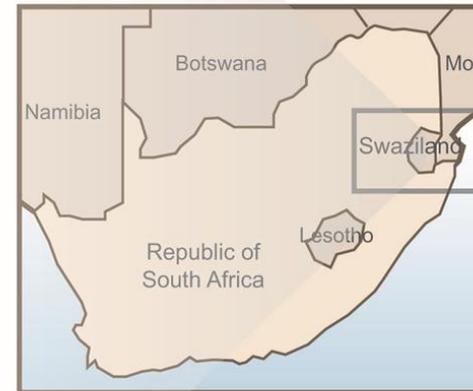
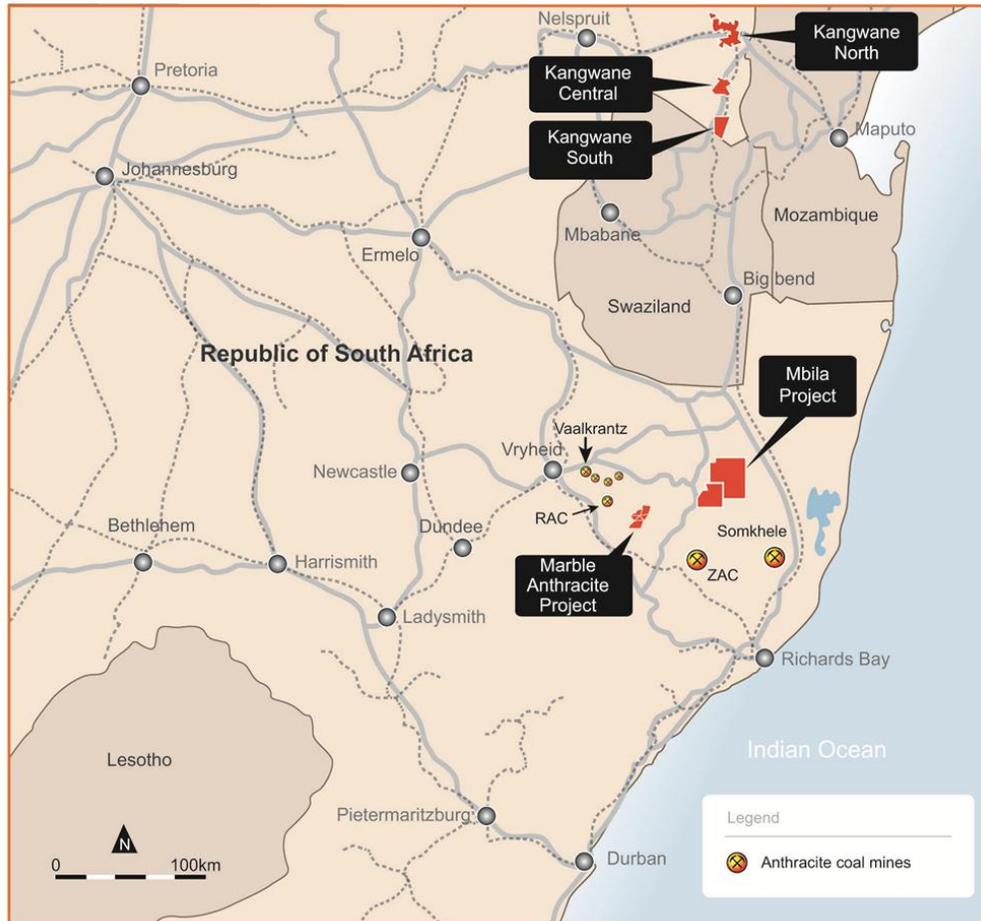
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The map below shows the location of the projects ZYL has a right/interest in post the acquisition of York Energy N.L.



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