



29 January 2010

Quarterly Report

Activities Report for the Quarter ended 31 December 2009

Summary of Coalworks Limited's Achievements

Oaklands

- ❖ *Oaklands – Measured Resource upgrade estimate completed, increasing the resource to 822 million tonnes of sub bituminous coal, including 121 million tonnes of Measured Resources (classified in accordance with the JORC Code).*
- ❖ *Oaklands – Preliminary Mining Study continues, Minarco-Mineconsult continued to progress preliminary mining studies.*
- ❖ *Oaklands - Environmental baseline studies continued in preparation for feasibility studies.*
- ❖ *Oaklands – Strategic alliance agreement with Synthesis Energy Systems Inc. to develop a coal to liquids plant at Oaklands.*

Vickery South

- ❖ *Vickery South tenement granted on 21 October 2009 coal exploration planning finalised and stage1 drilling campaign commenced in January 2010. Vickery South has the potential to host both thermal and coking coal.*

Hodgson Vale

- ❖ *Hodgson Vale - exploration review defined exploration strategies in northern and southern portions. Underground coal gasification potential to be evaluated.*

Ferndale Coal Project

- ❖ *Ferndale Coal Project – 90% interest in project acquired by Coalworks.*
- ❖ *Ferndale Coal Project – Preliminary exploration target of 60 to 85 Mt of export quality thermal coal and semi soft coking coal.*



Oaklands EL6861 (**Coalworks Limited 100%**)

During the last quarter, Coalworks completed a final resource model, upgrading the Measured, Indicated, and Inferred Resources in accordance with the JORC Code, as announced in November 2009. The upgraded coal resource is:

- **822 Million tonnes coal resources including**
 - ♦ **121 Million tonnes Measured resources**
 - ♦ **572 Million tonnes Indicated resources**
 - ♦ **129 Million tonnes Inferred resources.**

The total Oaklands coal resources have almost tripled since the company listed in June 2008 with JORC-compliant Inferred Resources of 280 Mt. The total resources were upgraded from the previously announced Indicated and Inferred Coal Resources of 760 Mt.

Weekly groundwater monitoring continued throughout the quarter.

Minarco-Mineconsult continued reviewing all available geological, geotechnical and hydrological data as part of preliminary mining studies during the quarter.

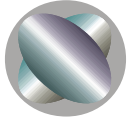
Further ongoing flora surveys were conducted over the tenement by R W Corkery Pty Ltd since October.

Results of representative coal core samples from the Lanes Shaft Seam dispatched for dustiness and spontaneous combustion propensity testwork are still pending from the laboratory. Results are expected in the forthcoming quarter.

Residual core samples from resource drilling have been composited and used for bulk sample testwork. One residual core sample was forwarded to a coal testing company in the United States of America for gasification propensity testing. In the coming quarter hydrogeological pumping tests are planned.

Coalworks has entered into a strategic alliance agreement with Synthesis Energy Systems Inc. ("SES"), a global industrial gasification company, to develop a gasification and liquefaction plant at Oaklands utilising SES's proprietary U-GAS® gasification technology, which SES licenses from the Gas Technology Institute. Pursuant to the agreement, Coalworks has engaged SES to conduct a feasibility study for the planned coal to liquids (CTL) plant at Oaklands. Pending successful results from the feasibility study, Coalworks would enter into a license agreement with SES for the U-GAS® technology at the Oaklands site. The proposed plant CTL plant would produce automotive grade petrol from coal using these clean coal technologies. Petrol would be transported by rail for distribution for local or export markets. NSW and Victoria have a shortfall of petrol supplies providing an opportunity for petrol produced from Oaklands Coal. Key points with the proposed CTL plant include:

- Petrol produced would be expected to be cleaner than existing automotive petrol
- Shortfall of petrol in NSW and Victoria provides good offtake potential
- Rail costs would be expected at less than 2% of petrol sales prices
- The CTL plant will be a clean coal plant able to capture pollutants such as sulphur and nitrous oxides and would be carbon capture ready
- The technologies to be used in the CTL plant are commercially proven



Vickery South (Coalworks Limited 100%)

Coalworks was granted Coal Exploration Licence EL7404 (Vickery South) on 21 October 2009. An initial 12-hole assessment program, Stage 1, was planned (Figure 2) and permitting was completed. The program commenced during January, 2010; coal has been intersected in most holes so far and results will be reported fully in the next quarterly report.

Coal intersections will be sampled in cored holes and will be submitted for laboratory analysis. The drilling campaign is aimed at defining an Inferred Resource compliant with the JORC Code.

Planning continues for a second stage of drilling to further define the coal in this Licence. This second stage of exploration will also include limited ground based geophysics to aid in defining structure, intrusions and stratigraphic correlations across the tenement.

Ashford EL6619 (Coalworks 100%, limestone exploration)

A program of field mapping was completed in October, to gather data regarding limestone quality away from the localised area of the previous drilling. Mapping included the use of a field portable XRF analyser to test the content of iron and other impurities in the field. The mapping showed that the limestone unit is relatively homogenous with minor variations in colour and geochemistry, and that iron contents are generally low. The mapping identified two new potentially suitable quarry sites for further assessment.

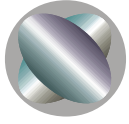
Hodgson Vale EPC1145 (Coalworks 100%, coal exploration)

An exploration review was conducted with an aim of identifying whether or not any open cuttable resources exist in the Walloon Coal Measures. Assessment of previous drilling results has confirmed and delineated a potentially open cuttable exploration target area in the tenement's northern portion. Consequently, an exploration program comprising up to five drillholes has been designed and is being considered by Coalworks.

The exploration review included an assessment of exploration potential in the tenement's south, resulting in a proposed two-hole scout drilling program. The program is aimed at investigating whether the prospective Walloon Coal Measures contains coal at suitable depths and thicknesses for potential resources to exist.

In January 2010, a request was made to the Queensland Mines and Energy to nominate the eastern portion of EPC1145 (which is not covered by petroleum tenure) as being eligible for underground coal gasification (UCG) activities. The proposed southern drilling program would also assist in evaluating the area's UCG potential.

Work will continue on logistical planning and exploration budgeting over the next quarter.



Ferndale EL 7430 (Coalworks 90%, coal exploration)

Coalworks acquisition earlier this month of its interest in the Ferndale Coal Project followed its grant on 18 December 2009 to Loyal Coal Pty Limited as trustee for a consortium. Coalworks, through a subsidiary, has acquired a 90% interest in the consortium, and will manage the consortium and must contribute to 90% of all expenditure on the project.

The Ferndale Coal Project is located at Yarrawa in the prime Hunter Valley coal area of New South Wales. The area is about 8 km southwest of Denman near Muswellbrook, is close to rail and road infrastructure, and is only 125 km from the coal port of Newcastle. The immediate aim is to drill a number of known coal measures including the Wittingham Coal Measures. The coal project area is known to have high calorific value thermal and coking coal potential. The current objective is to investigate an exploration target of 60 to 85 Mt of export quality thermal coal and semi soft coking coal. The initial mine production target is 2 Mtpa, increasing to 5 Mtpa. If a mine is developed at Ferndale, it is envisaged that it would generate considerable benefits to local businesses, with flow on effects expected to generate up to 6 jobs for every miner employed.

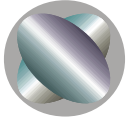


Figure 1: Project locations

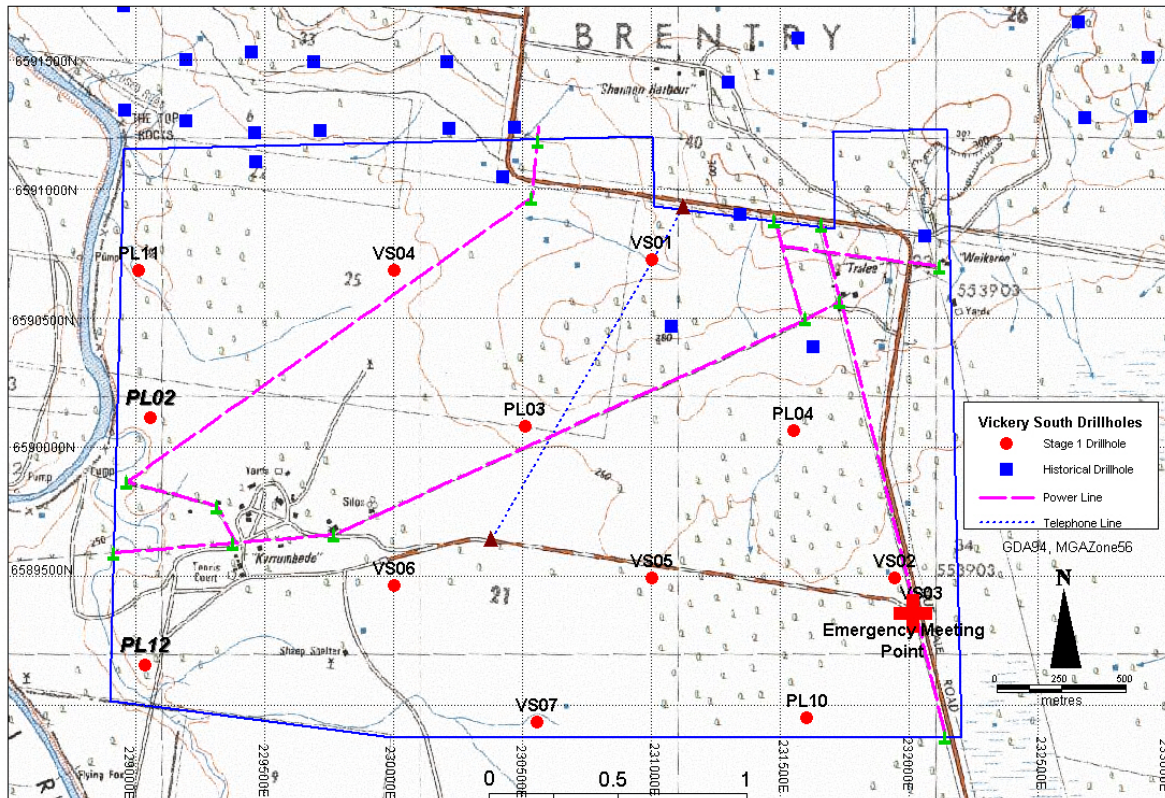
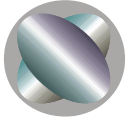


Figure 2: Vickers South - Stage 1 drillhole locations (as at 21-01-2010)
(NB. Drillholes labelled VS have been completed and those labelled PL are planned holes.)

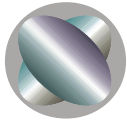
Cautionary Note: This release may contain forward-looking statements that are based upon management's expectations and beliefs in regards to future events. These statements are subjected to risk and uncertainties that might be out of control of Coalworks Limited and may cause actual results to differ 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, Mineral Resources and Ore Reserves: The information is based on, and accurately reflects information compiled by Ms Sue Border, who is a Fellow of the Australasian Institute of Mining and Metallurgy, and Mr Matt Morgan and Mr Tom Bradbury, who are Members of The Australasian Institute of Mining and Metallurgy.

Ms Border is the Principal of Geos Mining, a consultancy company providing specialist exploration services to the coal, uranium, gold, base metals and industrial minerals sectors. She has relevant experience in relation to the limestone deposit 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. Ms Border 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.

Mr Morgan 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 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.

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 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.



For further information, please contact:

Tony Teng

Director/Secretary

Tel: +61 2 9922 1344

Fax: +61 2 9922 4288

Email: info@coalworks.com.au

www.coalworks.com.au

About COALWORKS

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)*
- 5. Hodgson Vale (exploration target thermal coal)*
- 6. Ashford (limestone deposit with high value lime products as the target). *See Coalworks' ASX announcement 5.11.2009*