

COALWORKS Limited

11 November 2011

COALWORKS ANNUAL GENERAL MEETING CHAIRMAN'S ADDRESS

I have pleasure in presenting my report for the financial year ended 30th June 2011, our third full year of operations since listing on the Australian securities Exchange (ASX) on the 24th June 2008.

Overview

The year was again one of economic turmoil, with financial markets, exchanges rates having a serious impact on projects worldwide, and in all sectors, on the other hand the demand for Australian coal will continue to see good growth and prices. I will explain more about this and our research later under the heading Export markets.

The share price clearly does not reflect the company's asset backing.

With the above background, the management made substantial progress in all projects; Vickery South completing its PFS, Itochu increasing its equity holding, the acquisition of strategic land holding, Ferndale now has a world class exploration target, and finally Oakland continuing to finalize its PFS, in order to develop an economic coal to liquids plant; and the holding in newly listed Orpheus provides Coalworks' shareholders a quicker access to cash flow through new and planned Indonesian mines.

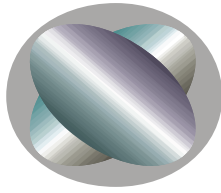
To continue to pursue of our targets and enhance our performance, we have strengthened the board and management team during the year.

Ferndale

Last year I advised that we acquired 90% interest in Loyal Coal Pty Limited, which owns the Ferndale coal project (EL 7430), a strategically located resource in the prime hunter valley coal region, is close to rail and only 125 km to the port of Newcastle.

In December 2010 Coalworks acquired an additional 2.5% interest in Loyal Coal Pty Ltd which holds the Ferndale Project, bringing our ownership to 92.5%. An independent market appraisal was obtained which valued the Ferndale project at \$40m. This has been reflected in the accounts by way of a \$36.5m revaluation increase over the capitalised value at the time of \$3.5m.

Following our increase in our holding in Loyal Coal, we then subsequently entered into a joint venture agreement with Boardwalk Ferndale Pty Limited, a Nathan Tinkler controlled company. The Joint Venture agreement allows Boardwalk to acquire a 50% holding in EL



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7430, by spending up to \$25 million, to fund a bankable feasibility study for an open cut mine and a pre-feasibility study for an underground mine.

At year end expenditure totalled \$1.8 million. It appears we can successfully initially target an open cut mine and conceptual studies for underground and open cut are scheduled for the end of December 2011.

The JV is managed by Boardwalk. A placement of 19.9% of Coalworks shares to Boardwalk Resources raised \$ 19.2 million dollars. Boardwalk's nominee, Mr. Ian Craig was appointed to the board of Coalworks. Production is planned for 2016.

Vickery South

Vickery South is a coking and export thermal coal project near Gunnedah, NSW.

Our joint venture partner, Itochu completed the expenditure of \$5 million to earn 29%, and have now agreed to proceed to a bankable feasibility study by the expenditure of a further \$ 6 million, to increase its equity holding to 49%

The preliminary feasibility is now complete (prepared by Minarco-Mine consult), and based upon exporting 2-3 Mtpa, the model produces a range of positive NPV's of between A\$ 159M-A\$323M on an 8-10% discount rate.

Negotiation on port and rail capacity continues; we expect to be in a position to export coal within 2015. The increasing community involvement is reflected in Coalworks' sponsorship of the Dorothea Mackellar Poetry Awards, which will be maintained into the future.

Oaklands

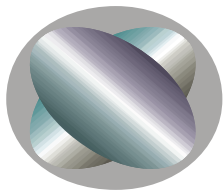
The option of mining and exporting this quality coal is still under review, but current world coal prices make this option marginal.

A PFS is in final stages of completion by Minarco, to produce 21,000 barrels/day of gasoline with the option to further investigate alternative products. At present, the prime consideration is gasoline, as we have the ability to produce 6% of the Australian market, and our studies indicate a potential liquid fuels shortage in NSW and Victoria.

Apart from Australian market, we have entered a dialogue with an offshore group concerning a long term off take, probably in Diesel, and probably in China. China has diesel and gasoline shortages, so our planned production can readily be absorbed in that market. Studies and negotiations continue.

We are also investigating all options to reduce capital costs, and therefore improve the NPV and IRR of the project, to fundable levels.

CTL project presentations have been made to the Federal Resources Minister, The Hon. Martin Ferguson and also the Department of Resources, Energy and Tourism. Coalworks is reviewing tax rebate levies, to help improve the economics of the project. Coalworks is also



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continuing with our offshore negotiations with a view to attracting consortium partners into the project.

Orpheus Energy Limited (ASX: OEG)

Orpheus Energy Limited successfully re-listed on the ASX on 17 August 2011, after spinning out from Coalworks. Coalworks at time of re-listing held 33% shareholding in OEG, and with final and planned restructuring and capital raising it is contemplated CWK will continue to hold a significant shareholding.

Orpheus's first Indonesian coking and thermal coal mining project, B26, in East Kalimantan, is secured as part of the company's strategic alliance with PT Mega Coal International ("Mega"). The project is planned to produce 500,000tpa, at a rate of 40,000 tpm.

Trial mining has commenced at B26. Initial overburden removal commenced in November last year, with first coal sales in May 2011. In all, 15,000 tonnes was mined and sold. Following listing, and on 1st September, 2011, OEG took over management of B26, and decided to redo the mine plan, appointing leading international engineers, Minarco-Mine Consult, enabling the company to call for new mining contractor quotations, and to re-negotiate an off take sales agreement. A revised short term mining plan was received on 8 November 2011 and Orpheus is hopeful of exposing coal by year end.

In addition to Orpheus's agreement on B26 in East Kalimantan, Orpheus has secured two additional blocks in the same area, (B34) about 60 km to the West of B26. Orpheus plans to develop and move to an exploitation licence within 2012, with mining commencing at B34 during last quarter 2012. It is planned that mining from the B34 projects will eventually double Orpheus's total production from this area.

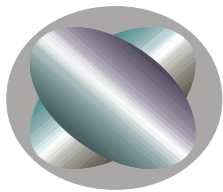
Orpheus and Mega Coal are reviewing the potential of tenements in South Kalimantan. Two projects are now under title due diligence review. Orpheus expects to be able to confirm title and details in the near future. Two projects are now under title due diligence review. The company expects to be able to confirm title and details shortly.

Orpheus management is systematically assessing additional projects against the company's required criteria of:

- near-term production capability;
- good proximity to infrastructure and loading facilities;
- satisfactory technical and legal verification; and
- Highly marketable coal.
- Low capital and operating costs

Orpheus management has also progressed development plans for its Australian assets:

- Hodgson Vale: with close proximity to other SE Queensland producing coal mines, a drilling program to explore for coal in the southern zone of EPC 145.
- Ashford: A drilling program to outline zones of high quality limestone in EL6511.



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- Wingen: lying just north of Unimin's operating bentonite mine, a drilling program to explore for high quality bentonite on ELA3657.
- Hodgson Vale: with close proximity to other SE Queensland producing coal mines, a drilling program to explore for coal in the southern zone of EPC 1145 is planned to establish a coal resource
- Ashford: a drilling program to outline zones of high quality limestone in EL6511 is planned.
- Wingen: lying just north of Unimin's operating bentonite mine, a drilling program to explore for high quality bentonite on EL 7142 and proceed with the joint venture at Wingen is planned.

Export markets

We monitor carefully the world coal market and coal import requirements country by country.

The general situation for Australian coal continues to remain buoyant. With its abundance of raw materials, Australian is the ninth largest energy producer, and responsible for 2.4% of world energy production, and 6% of the world's hard coal production. 97% of Australian hard coal comes from Queensland and NSW, coking coal mainly from Queensland, and thermal coal mainly from New South Wales.

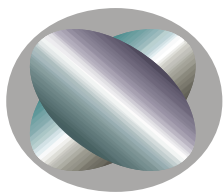
Production in Australia of black coal from 2008–2009 to 2009–2010 grew from 340 million tonnes to 360 million tonnes, whereas export during the same period rose by 30 million tonnes to 292 million tonnes or 11.5%. Mostly this increase has been in hard and semi soft coking coals, with exports of thermal coal actually falling by 1.4 million tonnes.

The export of New South Wales coal is still suffering from logistical bottle necks at Newcastle, but by the time we are ready to export our Vickery South production, these bottlenecks will have been resolved, definitely in time for production targeted from Ferndale.

Currently the price for Newcastle quality coal is US\$ 123/mt. Our internal research on forward supply/demand has potential prices for our project quality coals of up to and beyond US\$ 150/mt. Our reasons are:

- India's forward plans are to import an additional 150 million tonnes.
- China is likely to import 150 million tonnes over the next 5 to 10 years, with some report saying this could be as high as 300 million tonnes.
- Vietnam is expected to import up to 80 million tonnes over the next 5- 10 years.
- Thailand, Philippines continue to buy an increasing quality of coal.

Overall, Australia thermal coal has a bright future, mainly because Indonesia is unlikely to be able to supply the exploding Asian demand, and predominately mines and export lower quality sub bituminous coal.



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Our commitment

Our initial commitment and corporate objective has been to build the asset backing of the company by accumulating large coal inventories and other assets and consolidate these assets by bringing them into production and profitability.

To ensure the company continues to achieve its objectives we strengthened our management team.

Ian Craig, representing Boardwalk joined the board and brings with him International and Australian managerial expertise in the coal and mining sector.

David Smith previously at BBY, joined as an Executive Director, with commercial and funding raising expertise, one of David responsibilities will be to ensure the market fully understands our asset backing, and to help regain support from our shareholder base. Furthermore, David Oastler was appointed as our CFO, and Nathan Bartrop as Company Secretary.

Our target is to be producing 3 million tonnes of semi soft coking and thermal coal per annum by 2015 from Vickery South, with production at Ferndale by 2016.

Conclusion

Finally I want to thank my board and colleagues for their support and input. Each of our directors and management has made substantial and diligent contribution to the board's work and the development of the company.

Wayne Mitchell
Chairman

For further information, please contact:

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Company Secretary

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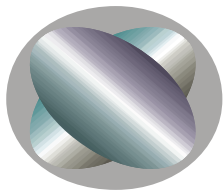
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Coalworks has a portfolio of projects in Australia including:

- 1. Vickery South, Gunnedah Basin (exploration target coking/thermal coal)**
JORC Resources Increase by 15% to 58.5Mt - see ASX Announcement 18.07.2011
ITOCHU to proceed with BFS for Vickery South - see ASX Announcement 18.05.2011
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 and 23.2.2011
- 2. Ferndale Coal Project**
Coalworks includes its 92.5% owned subsidiary Loyal Coal Pty Ltd



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New Exploration Target 350Mt – 530Mt of coking/thermal coal - see ASX announcement 19.11.2010)

Boardwalk Resources signed Farm-In and Joint Venture Agreements in \$25m deal - see ASX announcement 09.12.2010

- 3. Oaklands Coal Project (JORC measured, indicated and inferred 822Mt thermal coal)
– see ASX announcement 5.11. 2009;
- Strategic Alliance with Synthesis Energy Systems Inc to develop Oaklands coal-to-petrol plant announced – see ASX announcement 2.12.2009**