

COALWORKS Limited

11 January 2012

Dear Coalworks shareholder,

On behalf of the Board of Directors of Coalworks, I would like to wish you a happy New Year and to take this opportunity to update you on the progress we made as a business in 2011, which we anticipate will continue at pace in 2012.

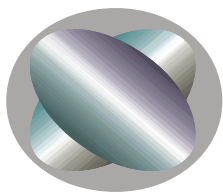
Operational Progress

2011 marked an exciting year for Coalworks and continued the rapid progress with the company's strategy of building a profitable, independent Australian coal producer. Against a background of turmoil in global financial markets, Coalworks continued to build the asset backing of the company through developing a significant and strategic inventory of coal resources, while at the same time increasing the value of its tenements through the achievement of a number of significant milestones. These included:

- Completing a pre-feasibility study at the Vickery South coking and thermal coal project in the Gunnedah Basin, where we also made a strategic land acquisition to position the project for infrastructure access;
- Completing Stage Two of drilling at our Ferndale project;
- Significantly advancing studies on our Oaklands North coal-to-liquids project; and
- Spinning off Orpheus Energy Limited and issuing an in specie distribution of shares to Coalworks shareholders.

We believe this momentum will continue into 2012. During the first quarter, we anticipate lodging a preliminary environmental assessment for Vickery South, as well as making progress with our options for port and rail access. Also early in the New Year, we anticipate the release of a JORC-compliant resource for Ferndale, which we believe will justify our confidence in the strategic nature of that project.

Importantly, in the third quarter of 2012 we expect the completion of the bankable feasibility study for Vickery South that will provide the vital parameters for us to move ahead with development, in conjunction with our partner Itochu. In parallel with work in the Gunnedah Basin, we also expect to move into a pre-feasibility study at Ferndale in partnership with Boardwalk Resources.



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Strong Management Team

At the corporate level, Coalworks has continued to strengthen its management team over the past year in order to assemble the necessary commercial and technical skills to create a successful independent coal company. This included our recent announcement of Geoff Kidd's appointment to the role of Chief Operating Officer.

In December 2011, Coalworks appointed Pitt Capital Partners as the company's corporate adviser to assist the Board and management with delivery of our strategy. Pitt Capital brings to Coalworks a depth of experience of working with major coal companies and Coalworks looks forward to working with Pitt Capital to take our strategy forward.

Part of Pitt Capital's role will be to consider the implications for Coalworks of the Whitehaven-Aston merger proposal announced in December, including the involvement of Boardwalk, Coalworks' 19.9% shareholder and our partner at Ferndale. Whatever the outcome of that process, we believe that the Whitehaven-Aston transaction demonstrates the valuable and strategic nature of Coalworks' high quality project pipeline, given its position at the core of Boardwalk's own portfolio.

Quality Shareholder Register

Also in December, the Board noted a number of significant changes to the share register. Firstly, we welcomed Acorn Capital as a substantial shareholder in Coalworks with a 6.1% stake, while at the same time Macquarie Group Limited increased its stake in Coalworks to 8.19%. We believe that these developments further strengthen our shareholder base and provide additional validation of our strategy to build a new independent coal producer in an industry that is consolidating rapidly and providing new opportunities for emerging players.

In summary, I would like to thank you for your ongoing support of Coalworks. The Board of Directors and management of Coalworks remain focused on delivering value for all of the company's shareholders. We believe that Coalworks is a high quality coal business and that, with the momentum we have built up in 2011, and the ongoing rationalisation of the sector overall, the company is poised for a significant re-rating in 2012.

Yours sincerely,

Wayne Mitchell,
Coalworks Chairman