



**Breakaway
Research**

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Company Information

ASX Code	ZYL
Share Price	A\$0.12
Ord Shares	492m
Options	27m
Market Cap	A\$56.5m
Cash (June 12)	A\$4.5m
Total Debt	A\$0m
Enterprise Value	A\$52.0m

Directors

Non-Executive Chairman	Glenn Whiddon
Chief Executive Officer	Ian Benning
Executive Director	Bevan Tarratt
Executive Director	Phillipe Lalieu
Non-Executive Director	David Greenwood

Substantial Share Holders

Macquarie Bank	8.07%
Sin tang Dvlmt Pte Ltd	5.55%
HSBC Nominees .	4.05%
Riverview Corp	2.92%
Mighty River Intl. Ltd	2.84%

Source: Bloomberg

Company Details

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1 Year Price Chart



Source: Bloomberg

ZYL Limited (ZYL)

*Resource upgrade reaffirms confidence in
near term anthracite coal producer*

Recommendation: Speculative BUY

Company Update

Key Points

- **Measured resources at Kangwane upgraded to 200Mt with a reserve upgrade expected shortly**
- **Combined Mbila and Kangwane mining reserves currently 60Mt**
- **Significant advances made in preparation of both project's BFS's – results due imminently**
- **Testwork confirms high-grade anthracite can be produced at Kangwane, attracting premium pricing**

ZYL is on track to imminently complete Bankable Feasibility Studies on two of their key projects – Mbila and Kangwane. Initial combined production is targeting ~2.5Mtpa with first coal from Mbila expected Q3 2013. Significant resource upgrade at Kangwane reaffirms +10 year LOM and highlights potential for further reserve upgrades once in production.

Company Update

ZYL continues to make consistent progress towards production on two of its key assets, the Mbila Project, located ~130km from Richards Bay and the Kangwane Central Project, located ~135km from the port of Maputo (Mozambique).

The Mbila project BFS is nearing completion (imminently) and the company is on track to commence production in Q3 2013 (0.84Mtpa ROM +35 year LOM). At Kangwane Central, significant advances have been made on the feasibility study following completion of the recent phase 3 drilling program.

- An upgrade to the Kangwane Central anthracite resource to **200Mt with the entire resource now in the Measured category**
- Positive metallurgical results indicating low phosphorus and sulphur levels (impurities) thus increasing the marketability of the product
- Pit optimisation studies indicating a 700m pit length extension, to 3,000m providing for a larger scale open pit and access to shallower resources
- Reserve upgrade in progress, with a significant increase anticipated

ZYL is steadily 'ticking the feasibility boxes' and is on track to deliver the completed Kangwane BFS (1.8Mtpa ROM for +10 year LOM) in Q4 2012.

Breakaway is further encouraged by a 'Binding Heads of Agreement' signed with York Energy to acquire 100% of its shares and thus, its rights to acquire interests in the Kangwane North, Mbila and the Marble projects.



Investment Review

Mbila (right to earn up to 74%)

Production start-up envisaged for Q3 2013

ZYL continues to make steady progress at Mbila and has reaffirmed the targeted production start-up during Q3 2013. Development costs are estimated ~A\$ 85m which are expected to be covered by a combination of debt and new equity. ZYL has selected Standard Chartered Bank and Nedbank Capital as preferred debt providers, with indicative debt likely to be in the order of A\$ 60-75 million.

Robust project economics (100% basis)

Indicative Annual operating parameters on a 100% basis

	Ecca Seam	Beaufort Seam	Total
ROM Production (Mt)	0.42	0.42	0.84
Saleable Product (Mt)	0.27	0.31	0.58
Mine Gate Price* (A\$/t)	135	112	123
Revenue (A\$m)	36.5	34.7	71.2
Cost (A\$m)	14.3	16.4	30.6
Operating Profit (A\$ m)	22.2	18.4	40.5

**Based on anthracite prices as at Jan 2012*

Source: ZYL and Breakaway Research

Binding heads of agreement to acquire 100% of York Energy

Right to increase interest Mbila, Kangwane North and the Marble project

ZYL recently signed an agreement to purchase 100% of York Energy for consideration of A\$ 12m in ZYL shares (@ A\$0.18/share), less outstanding liabilities. This gives ZYL the right to acquire up to an additional 30% of the Mbila project, thus increasing ZYL's ownership to 51% with the right to acquire an additional 23%.

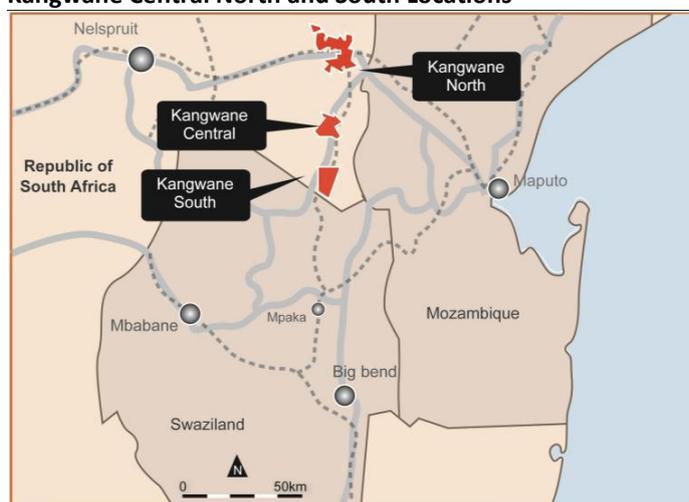
With the acquisition of York Energy (subject to share-holder approval), ZYL will own 51% of the Kangwane North project and will have the right to purchase an additional 19%. ZYL will also have the right to earn 60% in the Marble Project.

Kangwane Central (48% with right to increase to 51.12% interest)

Established infrastructure

Kangwane Central is strategically located close to key infrastructure, including rail, port, water, electricity, roads, and a semi-skilled workforce. A rail siding at the southern tip of the tenement feeds directly into the main rail network, which continues east to the port at Maputo and west to the established South African industrial coal market.

Kangwane Central North and South Locations



Source: ZYL Limited

Neighbouring projects also connected by rail

Resource Upgrade and Pit Optimisation

Kangwane BFS due in Q4 2012

ZYL has already completed a Pre-Feasibility Study (PFS) based on a 1.8Mtpa ROM mining operation producing 1.2Mtpa of saleable anthracite. As part of the work required to advance the project through to completion of a Bankable Feasibility Study (**due in Q4 2012**) the company has undertaken further drilling campaigns, pit optimisation studies and laboratory test work (amongst other things).

JORC resource of 200Mt

Following completion of a 'phase 3' drilling program, ZYL has announced a 320% increase in **Measured Resources to 200Mt**. Within this resource, a **26.7Mt probable reserve** has previously been delineated at the Southern Open Pit Area incorporating the S4Upper, S4Lower, S3 and S2 seams.

26.7Mt in probable reserves

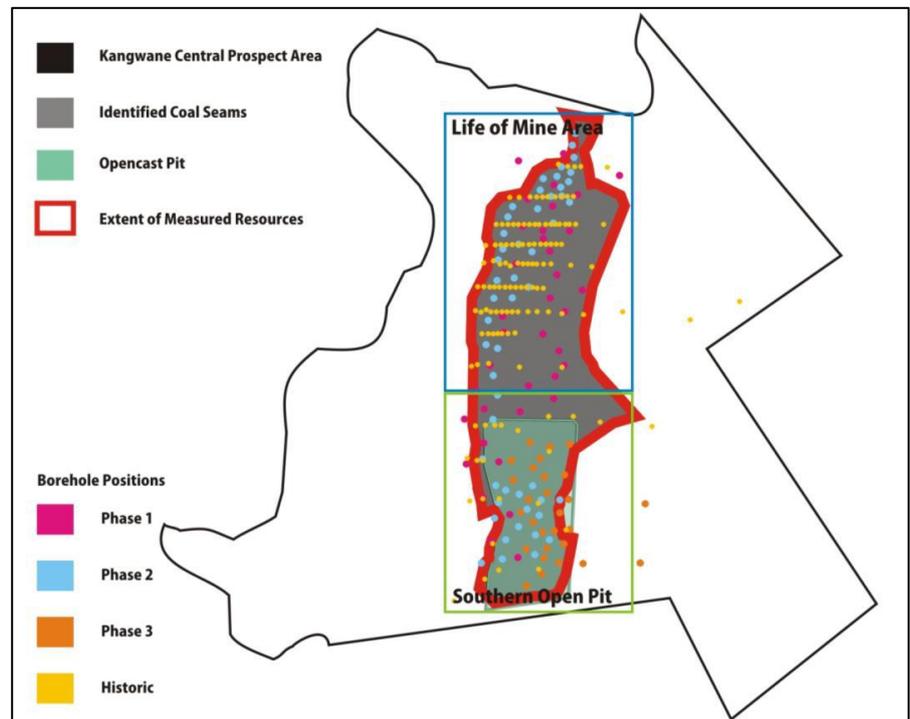
An updated and expanded mine plan is currently being designed for the Kangwane Central-Southern pit area, with a new reserve statement expected shortly. This will form the basis of the BFS assessment.

Reserve upgrade expected imminently

The pit optimisation studies have already led to a northern extension of the Southern Open Pit Area by 700m (north) and now totals 3,000m in length. In addition, the coal subcrop has been defined at ~30m below surface (previously thought to be ~45m) which reduces the pre-strip for initial production, and hence reduces start-up costs. The overall life of mine strip ratio is estimated to be 8.4:1 however the strip ratio is expected to be lower than this in the early years.

Kangwane Central – Southern Open Pit Area and LOM area

Increase pit length by 700m – reduced strip ratio



Significant resources north of the proposed open pit

Source: ZYL Limited

Testwork Results

Following on from the phase 3 drilling program, laboratory analysis has been undertaken on the core collected from the Southern Open Pit Area during the phase 3 program.

Kangwane Central – Southern Open Pit Area coal seam analysis

Seam	Wash Yield	Calorific Value		Moisture	Volatile Matter	Carbon	Sulphur	Phosphorous
	%	MJ/Kg	kcal/Kg	%	%	%	%	%
S7	83.31	29.86	7131	1.03	6.16	79.19	0.77	0.009
S6	35.15	22.9	5469	1.05	5.08	76.23	0.59	0.006
S5	18.21	26.42	6310	1.42	6.33	75.67	0.46	0.013
S4U	75.05	28.56	6821	1.22	6.74	75.37	0.46	0.005
S4L	22.88	25.64	6124	1.35	6.24	74.65	0.38	0.005
S3	48.79	26.31	6284	1.67	5.95	74.69	0.36	0.009
S2	61.78	27.53	6575	1.89	6.55	75.07	0.25	0.048
S1	65.09	25.24	6028	1.76	4.92	76.77	0.57	0.013
Average	53.14	27.06	6343	1.69	6.41	75.11	0.32	0.032

Source: ZYL Limited and Breakaway

Improved coal specifications

Low impurities

The recent testwork indicates that contaminants such as phosphorous and sulphur occur at lower levels than originally anticipated.

The coal seams which from the basis of the initial mine plan are S4Upper, S4Lower, S3 and S2 seams. From the table above, the S4Upper and S4Lower seams (in particular) have ultra- low phosphorous levels of 0.005% and less than 0.5% sulphur making the overall anthracite product very desirable across many local and export markets. Based on these results ZYL is planning to produce high grade anthracite for use as a coke or metallurgical coal substitute. This will attract a premium price over standard grade anthracite, which is used mainly in power generation.

Off take and Anthracite Coal Market

ZYL has received non-binding 'expressions of interest' for ~4Mt of coal annually from both the Mbila and Kangwane which is in excess of the combined envisaged production target of 2.5Mtpa.

The use of closed furnaces in industrial ovens for the smelting of iron ore, mineral sands and ferro-alloys means the release of smoke or emissions can present a major issue as smoke released builds up pressure. To counter this, coking coals are processed to reduce volatile matter and impurities. This process, however, can cost as much as US\$140/t, adding to the cost of the already-expensive coking coal (coking coal is currently trading at around US\$200/t).

'Expressions of interest' for twice the envisaged production rate

Anthracite can be used to blend with coking coal

Given that anthracite trades at around US\$130/t (depending upon the quality), it can be used as a coking coal substitute to help reduce costs. One drawback of anthracite is that it does not swell under extreme heat; this is a key property of coking coal that is essential as an oxygen reductant in smelting iron ore. Therefore, in steel production, anthracite needs to be blended with coking coal.



Analyst Verification

We, Grant Craighead and Andrew McLeod, as the Research Analysts, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

Disclosure

Breakaway Investment Group (AFSL 290093) may receive corporate advisory fees, consultancy fees and commissions on sale and purchase of the shares of ZYL Limited and may hold direct and indirect shares in the company. It has also received a commission on the preparation of this research note.

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